

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
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RECORDER • COUNTY CLERK • 222 West Hospitality Lane, First Floor
San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

April 7, 2004

BOARD OF SUPERVISORS

County Government Center
385 North Arrowhead Avenue, Fifth Floor
San Bernardino CA 92415-0110

Enclosed are copies of the audit reports prepared by the Internal Audits Section for the quarter ending March 31, 2004.

Respectfully submitted,

Larry Walker
AUDITOR/CONTROLLER-RECORDER

By: _____
Howard M. Ochi
Chief Deputy Auditor

LDW:HO:spr

Attachments (5)



AUDIT REPORTS

**PREPARED BY INTERNAL AUDITS SECTION
AND OUTSIDE AUDIT AGENCIES**

FOR THE QUARTER ENDING

March 31, 2004

Office of

AUDITOR/CONTROLLER-RECORDER

DEPARTMENTS

FISCAL GROUP

Auditor-Controller's Review of Calendar Year 2003 Property Tax Administration Program Grant
Calculations – AB589
Treasurer/Tax Collector Interest Apportionment

PUBLIC SERVICES

Flood Control District
Flood Control District Management Letter

SPECIAL DISTRICTS

CSA's

County Service Area No. 60, Apple Valley Airport
County Service Area No. 60, Apple Valley Airport Management Letter
County Service Area No. 70, Lenwood Sewer Improvements Project
County Service Area No. 70, Lenwood Sewer Improvements Project
Management Letter

FIRE PROTECTION DISTRICT

Lake Arrowhead Fire Protection District
Lake Arrowhead Fire Protection District Management Letter
Yucca Valley Fire Protection District

JPA'S AND OTHERS

Local Agency Formation Commission

GRANT AUDITS PERFORMED BY EXTERNAL FIRMS

Department of Children's Services First 5 San Bernardino Grant
District Attorney's Office Automobile Insurance Fraud Program Grant
District Attorney's Office Career Criminal Prosecution Program Grant
District Attorney's Office Elder Abuse Advocacy and Outreach Program Grant
District Attorney's Office Major Narcotics Vendor Prosecution Program Grant
District Attorney's Office Organized Automobile Fraud Activity Interdiction Program Grant
District Attorney's Office Special Emphasis Victim's Assistance Program Grant
District Attorney's Office Spousal Abuser Prosecution Program Grant
District Attorney's Office Statutory Rape Vertical Prosecution Program Grant

GRANT AUDITS PERFORMED BY EXTERNAL FIRMS (Continued)

District Attorney's Office Victim/Witness Assistance Program Grant
District Attorney's Office Workers' Compensation Insurance Fraud Program
Probation Department Juvenile Accountability Incentive Block Grant
Probation Department Juvenile Crime Enforcement and Accountability Challenge Grant II
Sheriff's Department Career Criminal Apprehension State-of-the-Art Program Grant
Sheriff's Department DNA Cold Hit Program Grant
Sheriff's Department Drug Endangered Children Project Grant
Sheriff's Department Marijuana Suppression Program Grant
Sheriff's Department Operation Cleansweep Program Grant
Sheriff's Department Street Enforcement and Prosecution Project Grant

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Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

January 13, 2004

Department of Finance
State of California
State Capital, Room 1145
Sacramento, CA 95814

**Subject: Auditor-Controller's Review of Calendar Year 2003
Property Tax Administration Program Grant Calculations**

We have reviewed Exhibit B to the 2003 Annual Report – AB589 State-County Property Tax Administration Grant Program Agreement Results to verify that the Assessor's calculations are arithmetically correct and that the performance results satisfy the requirements specified in Section 5 of the State/County Property Tax Administration Program Agreement.

Our review included those procedures we considered necessary under the circumstances to perform this verification. These procedures included a review of supporting documentation and interviews with Assessor management and staff. We also recomputed the Assessor's calculations of the amount of additional revenue received by schools.

Based on our review, we conclude that the Assessor's calculations are arithmetically correct and that the performance results satisfy the requirements specified in Section 5 of the State/County Property Tax Administration Program Agreement.

Sincerely

Larry Walker
Auditor/Controller-Recorder

By: Barbara K. Redding, CPA, CGFM
Manager, Internal Audit Section

BKR:dlp

**AUDIT REPORT
TREASURER/TAX COLLECTOR
INTEREST APPORTIONMENT
FOR THE FISCAL YEAR ENDING
JUNE 30, 2003**

Prepared By:

**Internal Audits Section
Office of the Auditor/Controller-Recorder
December 11, 2003
TREASURER/TAX COLLECTOR INTEREST APPORTIONMENT**

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AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

December 11, 2003

RICHARD LARSEN

Treasurer/Tax Collector
172 West Third Street
San Bernardino, CA 92415-0360

SUBJECT: AUDIT OF FISCAL YEAR JUNE 30, 2003 APPORTIONMENT

Introductory Remarks

In compliance with Article V, Section 6 of the San Bernardino County Charter and the Board of Supervisor's Policy Statement on Internal Operational Auditing, we have completed an audit of the interest apportionments by the San Bernardino County Treasurer's Office for the fiscal year ending June 30, 2003.

In fiscal year 1997/98, an error was discovered in the way the computer program processed the interest apportionment. The Treasurer-Tax Collector determined that the error resulted in misallocation of interest. On July 1, 1999, the Treasurer-Tax Collector implemented the correction process to pay back interest that was due to certain funds and recover interest overpaid to other funds. This process will be completed by June 30, 2004. We did not audit the interest correction payback amounts. An independent analysis was performed by Vavrinek, Trine, Day & Co., LLP whose report was furnished to us.

Scope of Audit

Our audit was made in accordance with generally accepted auditing standards and included such tests, as we considered necessary in the circumstances. Those tests were not designed for nor would they necessarily disclose material weaknesses in the internal controls. Specifically, we examined the following areas:

- A. Apportionment of interest received among various funds before consideration of interest correction payback.

B. Accrual of interest earned but not yet received as of June 30, 2003.

Results of Audit

The attached Summary of Apportioned Interest (Schedule 1) presents fairly the total amount of interest received and disbursed and the interest earned but not yet received by the San Bernardino County Treasurer for the four quarters of fiscal year June 30, 2003. Schedules 2 and 3 are presented for informational purposes only.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By: _____
Barbara K. Redding, CPA, CGFM
Internal Audits Manager

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County Administrative Office
Board of Supervisors
Grand Jury (2)
Audit File (3)

Date Report Distributed: _____

LDW:BKR:dlp2

**County of San Bernardino
Treasurer Tax Collector
Summary of Apportioned Interest
For the Fiscal Year Ended 6/30/03**

Interest Received and Disbursed

Col. 1	Col. 2	Col. 3	Col. 4	Col. 5	Col. 6
Quarter Ended	Average Daily Balance	Quarterly Interest Received	Treasurer's Cost	Quarterly Interest Disbursed (Col.3-Col.4)	Net Interest Factor (Col.5/Col. 2)
9/30/2002	\$ 1,997,698,365	\$ 21,107,249	\$ 512,189	\$ 20,595,060	1.030939423%
12/31/2002	1,978,455,036	16,664,546	512,189	16,152,357	0.816412640%
3/31/2003	2,186,005,295	15,092,500	512,189	14,580,311	0.666984249%
6/30/2003	2,599,904,915	14,705,995	279,794	14,426,201	0.554874177%
Yearly Totals	\$ 8,762,063,611	\$ 67,570,290	\$ 1,816,361	65,753,929	3.069210490%
Averages	\$ 2,190,515,903				0.750438845%

Allocations By Fund Types

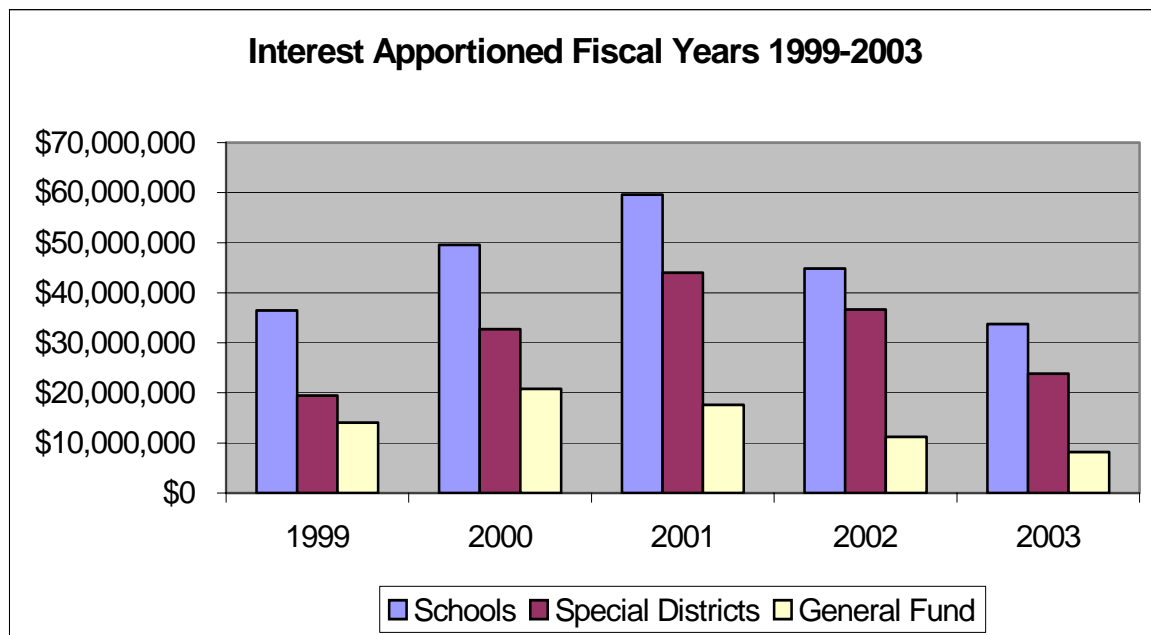
School Funds:	
General	\$ 32,856,094
Debt Service	867,851
Total Schools	<u>33,723,945</u>
Special Districts and Agency	23,867,604
County General Fund	8,162,380
Total Allocation	<u>\$ 65,753,929</u>

Accrual Allocation Percentage

Fourth Quarter Interest Earned but not yet received(accrual) \$2,336,615
Fourth Quarter Interest Disbursed \$14,426,201 = **16.19702235%**

**County of San Bernardino
Treasurer's/Tax Collector
Five Year Summary of Apportioned Interest
By Fund Type
For the Fiscal Year Ended 6/30/03**

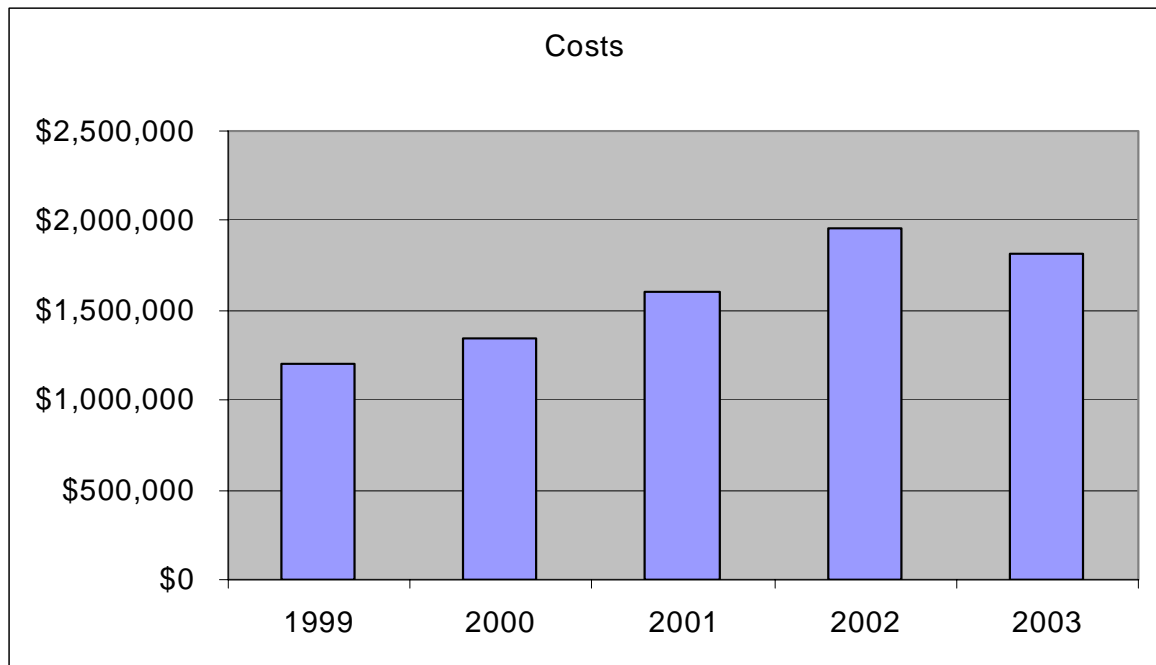
<u>Fund Type</u>	<u>FYE 6/30/1999</u>	<u>FYE 6/30/2000</u>	<u>FYE 6/30/2001</u>	<u>FYE 6/30/2002</u>	<u>FYE 6/30/2003</u>
Schools	\$36,443,825	\$49,528,566	\$59,575,862	\$44,864,416	\$33,723,945
Special Districts	19,441,403	32,704,957	43,984,051	36,686,912	23,867,604
General Fund	14,043,056	20,801,755	17,620,615	11,199,014	8,162,380
Total	\$69,928,284	\$103,035,278	\$121,180,528	\$92,750,342	\$65,753,929

**Note:**

Schedule 2 does not reflect corrections of interest apportionment resulting from the payback process.

**County of San Bernardino
Treasurer's/Tax Collector
Five Year Summary of Treasurer/Tax Collector Costs
For the Fiscal Year Ended 6/30/03**

	<u>FYE</u> <u>6/30/1999</u>	<u>FYE</u> <u>6/30/2000</u>	<u>FYE</u> <u>6/30/2001</u>	<u>FYE</u> <u>6/30/2002</u>	<u>FYE</u> <u>6/30/2003</u>
Costs	<u>\$1,205,426</u>	<u>\$1,349,944</u>	<u>\$1,600,144</u>	<u>\$1,955,737</u>	<u>\$1,816,361</u>



COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
COUNTY FLOOD CONTROL DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder

October 3, 2003

**County of San Bernardino Special Districts
County Flood Control District**

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

October 3, 2003

Ken A. Miller, Director
Department of Public Works
825 East Third Street
San Bernardino, CA 92415-0835

**SUBJECT: AUDIT OF SAN BERNARDINO COUNTY FLOOD CONTROL
DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of the Flood Control District for the fiscal year ended June 30, 2003.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the remaining aggregate fund information of the County of San Bernardino Flood Control District, a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2003, which collectively comprise the Special District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles

used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining aggregate fund information of the County of San Bernardino Flood Control District, as of June 30, 2003, and the respective changes in financial position and cash flows thereof for the year ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The accompanying budgetary comparison information on page 32 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The County of San Bernardino Flood Control District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker:
Auditor/Controller-Recorder

By: _____
Barbara K. Redding, CPA, CGFM
Internal Audits Manager

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Date Report Distributed: _____

LDW:BKR:CR:dlp1

**County of San Bernardino
Flood Control District
Statement of Net Assets
June 30, 2003**

	Governmental Activities	Business-Type Activities	
ASSETS	Flood Control	Equipment Rental	Total
Current assets:			
Cash and cash equivalents	\$ 63,346,490	\$ 1,940,878	\$ 65,287,368
Cash With Fiscal Agent	768,272	-	768,272
Restricted cash	1,297,983	-	1,297,983
Customer deposits	60,000	-	60,000
Accounts receivable	-	-	-
Taxes receivable	1,167,140	-	1,167,140
Interest receivable	320,238	9,188	329,426
Advances to other funds	1,147,274	-	1,147,274
Due from other governments	699,927	52,093	752,020
Total current assets	<u>68,807,324</u>	<u>2,002,159</u>	<u>70,809,483</u>
Noncurrent assets:			
Capital assets:			
Structures	425,843	-	425,843
Construction in progress	22,845,606	-	22,845,606
Dams, channels, drainage systems	304,829,180	-	304,829,180
Equipment and vehicles	311,785	9,777,729	10,089,514
Less accumulated depreciation	<u>(154,011,375)</u>	<u>(4,695,969)</u>	<u>(158,707,344)</u>
Total noncurrent assets	<u>174,401,039</u>	<u>5,081,760</u>	<u>179,482,799</u>
Total assets	<u><u>\$ 243,208,363</u></u>	<u><u>\$ 7,083,919</u></u>	<u><u>\$ 250,292,282</u></u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 1,927,855	\$ -	\$ 1,927,855
Retention payable	1,193,347	-	1,193,347
Salaries and benefits payable	471,139	1,197	472,336
Capital leases current	-	27,302	27,302
Advances from other funds	1,147,274	-	1,147,274
Due to other governments	1,439,177	34,060	1,473,237
Deferred revenue	1,184,944	-	1,184,944
Employee compensated absences	1,034,919	-	1,034,919
Loans payable - current portion	165,000	-	165,000
Customer deposits	66,420	-	66,420
Total current liabilities	<u>8,630,075</u>	<u>62,559</u>	<u>8,692,634</u>
Noncurrent liabilities:			
Capital leases	-	69,939	69,939
Loans payable	17,361,512	-	17,361,512
Total noncurrent liabilities	<u>17,361,512</u>	<u>69,939</u>	<u>17,431,451</u>
Total liabilities	<u>25,991,587</u>	<u>132,498</u>	<u>26,124,085</u>
NET ASSETS			
Invested in capital assets, net of related debt	156,874,530	4,984,519	161,859,049
Unrestricted	<u>60,342,246</u>	<u>1,966,902</u>	<u>62,309,148</u>
Total net assets	<u>217,216,776</u>	<u>6,951,421</u>	<u>224,168,197</u>
Total liabilities and net assets	<u><u>\$ 243,208,363</u></u>	<u><u>\$ 7,083,919</u></u>	<u><u>\$ 250,292,282</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Flood Control District
Statement of Activities
For the Fiscal Year Ended June 30, 2003**

	Governmental Activities Flood Control	Business-Type Activities Equipment Rental	Total
EXPENSES:			
Salaries and benefits	\$ 7,468,658	\$ 35,882	\$ 7,504,540
Services and supplies	6,923,072	1,083,350	8,006,422
Professional services	-	540	540
Rents and leases	-	-	-
Depreciation	5,831,797	820,443	6,652,240
Other charges	255,578	-	255,578
Interest	26,956	5,863	32,819
Total expenses	<u>20,506,061</u>	<u>1,946,078</u>	<u>22,452,139</u>
PROGRAM REVENUES			
Government aid and grants	9,701,298	-	9,701,298
Charges for services	-	2,054,622	2,054,622
Total program revenues	<u>9,701,298</u>	<u>2,054,622</u>	<u>11,755,920</u>
Net program revenue (expense)	<u>(10,804,763)</u>	<u>108,544</u>	<u>(10,696,219)</u>
GENERAL REVENUES:			
Property taxes	21,615,830	-	21,615,830
Interest	1,704,101	56,356	1,760,457
Rents, concessions and royalties	938,597	-	938,597
Gain on sale of fixed assets	181,471	19,454	200,925
Miscellaneous	769,429	31,012	800,441
Total general revenues	<u>25,209,428</u>	<u>106,822</u>	<u>25,316,250</u>
Change in net assets	14,404,665	215,366	14,620,031
Net assets - beginning as restated	202,812,111	6,736,055	209,548,166
Net assets - ending	<u>\$ 217,216,776</u>	<u>\$ 6,951,421</u>	<u>\$ 224,168,197</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
County Flood Control
Balance Sheet
Governmental Funds
For the Year Ended June 30, 2003**

	<u>Activities</u> <u>Flood Control</u>
ASSETS	
Cash and cash equivalents	\$ 63,346,490
Cash With Fiscal Agent	768,272
Restricted cash	1,297,983
Customer deposits	60,000
Interest receivable	320,238
Taxes receivable	1,167,140
Accounts receivable	-
Advances to other funds	1,147,274
Due from other governments	699,927
Total assets	<u>\$ 68,807,324</u>
LIABILITIES AND FUND BALANCES	
Liabilities:	
Salaries and benefits payable	\$ 471,139
Retention payable	1,193,347
Accounts payable	1,927,855
Advances to other funds	1,147,274
Due to other governments	1,439,177
Deferred revenue	1,184,944
Customer deposits	66,420
Total liabilities	<u>7,430,156</u>
Fund Balances:	
Unreserved	48,789,888
Reserved for Encumbrances	12,587,280
Total fund balances	<u>61,377,168</u>
Amounts reported for <i>governmental activities</i> in the Statement of Net Assets are different because:	
Capital assets and long term liabilities used in governmental activities are not financial resources and, therefore, are not reported in the funds	174,401,039
Long term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet	(18,561,431)
Net assets of governmental activities	<u>\$ 217,216,776</u>

The notes to the financial statements are an integral part of this statement

	Total
REVENUES	<u>Governmental Funds</u>
Property Taxes	\$ 20,693,673
Other Taxes	922,157
Interest	1,704,101
Governmental Aid	11,735,658
Rents, Concessions and Royalties	938,597
Other	769,429
Total Revenues	<u>36,763,615</u>
EXPENDITURES	
Salaries and Benefits	7,366,457
Services and Supplies	6,923,072
Debt Service - Principal	1,281,315
Debt Service - Interest	26,956
Other Charges	255,578
Capital Outlay	20,608,814
Total Expenditures	<u>36,462,192</u>
Excess (Deficiency) of Revenues Over Expenditures	301,423
OTHER FINANCING SOURCES:	
Sales of Fixed Assets	181,471
Total Other Financing Sources	<u>181,471</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures	482,894
Fund Balance - Beginning	60,894,274
Fund Balance - Ending	<u>\$ 61,377,168</u>

6

**County of San Bernardino
County Flood Control
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
For the Fiscal Year Ended June 30, 2003**

Net change in fund balances-total governmental funds	\$	482,894
--	----	---------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental Funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation expense in the current period.

14,777,017

Loan addition

(2,034,919)

Employee compensated absences increase

(101,642)

Repayment of capital leases and other long term debt is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the statement of net assets.

1,281,315

Change in net assets of governmental activities

\$ 14,404,665

The notes to the financial statements are an integral part of this statement

**County of San Bernardino
County Flood Control
Statement of Net Assets
June 30, 2003**

	<u>Internal Service Fund Equipment Rental</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,940,878
Interest receivable	9,188
Advances to other funds	
Due from other governments	52,093
Total current assets	<u>2,002,159</u>
Noncurrent assets:	
Capital assets:	
Equipment and vehicles	9,777,729
Less accumulated depreciation	<u>(4,695,969)</u>
Total noncurrent assets	<u>5,081,760</u>
Total assets	<u><u>\$ 7,083,919</u></u>
 LIABILITIES	
Current liabilities:	
Salaries and benefits payable	\$ 1,197
Capital leases current	27,302
Due to other governments	34,060
Total current liabilities	<u>62,559</u>
Noncurrent liabilities:	
Capital leases	<u>69,939</u>
Total noncurrent liabilities	<u>69,939</u>
Total liabilities	<u>132,498</u>
 NET ASSETS	
Invested in capital assets, net of related debt	4,984,519
Unrestricted	<u>1,966,902</u>
Total net assets	<u>6,951,421</u>
Total liabilities and net assets	<u><u>\$ 7,083,919</u></u>

The notes to the financial statements are an integral part of this statement

County of San Bernardino
County Flood Control
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Fiscal Year Ended June 30, 2003

	Business Type Activities
	<u>Internal Service Equipment Rental</u>
OPERATING REVENUES	
Charges for services	\$ 2,054,622
	<hr/>
Total operating revenues	<hr/> 2,054,622 <hr/>
OPERATING EXPENSES	
Salaries and benefits	35,882
Professional services	540
Services and supplies	1,083,350
Rents and leases	-
Depreciation	820,443
Total operating expenses	<hr/> 1,940,215 <hr/>
Operating income (loss)	<hr/> 114,407 <hr/>
NONOPERATING REVENUES (EXPENSES)	
Interest	56,356
Gain on sale of fixed assets	19,454
Inter-Fund transfers in (out) net	31,012
Interest expense	(5,863)
Total nonoperating revenues (expenses)	<hr/> 100,959 <hr/>
Change in net assets	215,366
Net assets-beginning	6,736,055
Net assets-ending	<hr/> \$ 6,951,421 <hr/>

The notes to the financial statements are an integral part of this statement

**County of San Bernardino
County Flood Control
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2003**

	Equipment Rental
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from assessments made to other funds	\$ 2,052,564
Payments to employees for services	(35,710)
Payments to suppliers for goods and services	(1,036,404)
Other payments	-
Net cash provided (used) by operating activities	<u>980,450</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Other Revenues	<u>12,248</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments related to the acquisition, construction and improvement of capital assets	(1,169,085)
Cash sales of capital assets	135,059
Principal paid on capital leases	(28,340)
Interest paid on capital leases	(5,863)
Net cash provided (used) by noncapital financing activities	<u>(1,068,229)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Increase in fair value of investments	833
Interest	65,877
Net cash provided by investing activities	<u>66,710</u>
Net increase (decrease) in cash and cash equivalents	(8,821)
Cash and cash equivalents - beginning	<u>1,949,699</u>
Cash and cash equivalents - ending	<u><u>\$ 1,940,878</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ 114,407
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation expense	820,443
Change in assets and liabilities:	
Decrease in receivables, net	10,525
Increase in accounts and other payables, net	35,075
Net cash provided (used) by operating activities	<u><u>\$ 980,450</u></u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES	

The notes to the financial statements are an integral part of this statement

**County of San Bernardino
County Flood Control
Statement of Fiduciary Net Assets
Agency Fund
June 30, 2003**

	1915 Act Bond Reserve <u>Agency Funds</u>	Best Management Handbook <u>Agency Funds</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 483,030	\$ 20,406	\$ 503,436
Total current assets	<u>\$ 483,030</u>	<u>\$ 20,406</u>	<u>\$ 503,436</u>
 LIABILITIES			
Due to Other	483,030	20,406	503,436
Total liabilities	<u>\$ 483,030</u>	<u>\$ 20,406</u>	<u>\$ 503,436</u>

The notes to the financial statements are an integral part of this statement

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2003**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The County Flood Control District is a special district located within the County of San Bernardino. The County Flood Control District has governmental powers as established by the San Bernardino County Government Charter (the County). The County was established in 1852 as a legal subdivision of the State of California.

San Bernardino County Flood Control District was established under Chapter 73 of the 1939 Statutes for the State of California. County Flood Control's powers are exercised through a Board of Supervisors (the "Board"), which is a governing body for the County. Flood Control maintains and constructs flood control channels, basins, storm drains and dams in six geographical zones within San Bernardino County. Flood Control also works with the neighboring counties of Los Angeles, Riverside and Orange Counties to maintain flood control systems and clean up after disasters.

The governmental reporting entity consists of the six flood control zones, the administration, and the internal service fund (equipment rental) and their related group of funds. The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (i) either the County's ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of the County Flood Control District and are not intended to present the financial position of the County taken as a whole.

The District's six zones, administration and the internal service fund have combined resources within the County to form an integrated flood drainage and water conservation system in the incorporated and unincorporated areas of the County. The six flood control zones are as follows:

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2003**

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity

Zone	Geographical Areas (Description)
1	The westerly portion of the San Bernardino Valley extending from Beech Avenue in the Fontana area to the Los Angeles County line, all south of the San Gabriel mountain range divide. This embraces the cities or communities of Upland, Montclair, Ontario, Chino, Alta Loma, Rancho Cucamonga, Etiwanda and Guasti. (277 square miles).
2	The central areas of the San Bernardino Valley easterly of Zone 1 to approximately the Santa Ana River and City Creek demarcations. This includes the Cities of Fontana, Rialto, San Bernardino, Colton and Grand Terrace, together with the communities of Devore, Muscoy, Del Rosa, and Bloomington. (315 square miles).
3	The easterly end of the San Bernardino Valley east from Zone 2 including the cities and communities of Redlands, Highland, East Highland, Mentone, Yucaipa and Loma Linda. (393 square miles).
4	The Mojave River Valley from the San Bernardino mountains to Silver Lake and including the cities and communities of Barstow, Hesperia, Apple Valley, Victorville, Oro Grande, Helendale, Hodge, Hinkley, Yermo and Daggett. (1,129 square miles).
5	The mountainous watershed of the Mojave River on the crest and north slopes of the San Bernardino mountains including the communities of Crestline, Lake Gregory, Lake Arrowhead, Running Springs and Green Valley Lake. (175 square miles).
6	The remainder of the County not embraced by other zones including portions of the San Gabriel and San Bernardino mountains and the semi-desert portion of the County. This embraces the cities and communities of Needles, Trona, Adelanto, Phelan, Lucerne Valley, Amboy and the Twentynine Palms-Morongo Valley districts. (17,900 square miles).

The District also has three Local Area Drainage Plans (LADP) and the National Pollution Discharge Elimination System Program (NPDES) which are reported with the Zones.

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2003**

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues and interest to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of “available” to nine months.

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2003**

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement focus, basis of accounting, and financial statement presentation

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *special revenues funds* Zones 1-6, LADP and NPDES are the government's primary operating funds. The funds account for all financial resources of the general government, except those required to be accounted for in another fund.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business type activities and enterprise funds, subject to this same limitations. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenue of the Flood Control District is charges to customers for equipment rental. Operating expenses for the proprietary fund include the cost of salaries and benefits, services and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2003**

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement focus, basis of accounting, and financial statement presentation

The government reports the following major proprietary funds:

The *internal service fund* labeled “Equipment Rental” accounts for the activities of renting the vehicles and equipment to the six zones in Flood Control and the County Department of Transportation.

When both restricted and unrestricted resources are available for use, it is the government’s policy to use restricted resources first and then unrestricted resources as they are needed.

Agency funds are used to account for assets held by the District as an agent for individuals, private organizations, other governments and/or other funds. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations. The modified accrual basis of accounting is used for the agency funds.

The 1915 Act Bond Reserve fund is used to account for the accumulation of resources for, and payment of, the bonds issued under the Improvement Act of 1915 for certain flood control improvements. There is no outstanding bond liability at June 30, 2003; accordingly, the \$483,030 surplus is classified as *Due to Other*. However, the disposition of the surplus has not been determined as of the issuance date of this report. It is anticipated that the surplus will be returned to Flood Control for the maintenance of the Bledsoe Creek Project.

The California Storm Water Best Management Fund is used to pay for costs associated with the update and revision of the State Best Management Practices Handbooks.

Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e. the current portion of interfund loans) or “advances to/from other funds” (i.e. the non-current portion of interfund loans). All other outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.” All accounts receivable are shown net of an allowance from uncollectibles when applicable.

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2003**

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Inventories and prepaid items

Inventories, if any are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g. dams, channels, drainage systems), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$ 5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Infrastructure, buildings, equipment, and vehicles are depreciated using the straight-line method or the productive hours method over the following estimated useful lives:

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2003**

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets

Basins, storm drains, channels, dams	50 years
Vehicles, governmental funds	6 years
Equipment, governmental funds	6 to 15 years
Buildings, structures	45 years
Internal Service fund (Enterprise)	productive hours
Equipment and vehicles	

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability. The District is not obligated to pay for unused sick leave if an employee terminates or retires.

Compensated absences activity for the year ended June 30, 2003 was as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
\$ 933,991	\$ 578,127	\$ 477,199	\$ 1,034,919

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2003**

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities that cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The second element of that reconciliation states that the “Repayment of capital leases and other long term debt is an expenditure in the governments funds, but the repayment reduces long term liabilities in the statements of net assets.” Accordingly, additions of capital leases and other long term debt is revenue in the governmental funds, but the addition increases long term liabilities in the statement of net assets. The details of the differences of \$13,921,771 are as follows:

Capital outlay	\$	20,608,814
Depreciation expense		(5,831,797)
Addition of long term debt		(2,034,919)
Increase in Employee Compensated Absences		(101,642)
Repayment of long term debt		1,281,315
		<hr/>
Net adjustment to increase <i>net change in fund balances total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$	<u><u>13,921,771</u></u>

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 – 29143 of the Government code of the State of California, commonly know as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2003**

NOTE 1– SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2002.

NOTE 3 – RESTRICTED CASH

Restricted cash consists of deposits made to the District on various construction projects that are not expendable and are therefore restricted.

NOTE 4 – CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, dams, channels, storm drains, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of County Flood Control as a whole, and their original costs are expensed annually over their useful lives. For the Internal Service Fund (ICA) capital assets are recorded at historical cost or at estimated historical cost if actual cost is not available. During the year of acquisition the capital assets are capitalized in the Internal Service Fund and are depreciated over their productive hours estimated life. Depreciation expense is recorded annually in the Internal Service Fund. Capital assets for both governmental and business-type activities are as follows:

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2003**

NOTE 4 – CAPITAL ASSETS (Continued)

	Balance July 1, 2002	Increases	Decreases	Ending Balance June 30, 2003
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Construction in progress	\$10,774,377	\$20,595,340	(8,524,111)	\$22,845,606
Total capital assets, not be depreciated	10,774,377	20,595,340	(8,524,111)	22,845,606
<i>Capital assets, being depreciated:</i>				
Buildings	425,843	-	-	425,843
Channels, drains, dams, basins	299,283,326	8,524,111	(2,978,257)	304,829,180
Vehicles	66,218	-	(34,515)	31,703
Equipment	297,758	-	(17,676)	280,082
Total capital assets being depreciated	300,073,145	8,524,111	(3,030,448)	305,566,808
Less accumulated depreciation for:				
Buildings	(264,466)	(8,747)	-	(273,213)
Channels, drains, dams, basins	(148,136,244)	(5,800,232)	473,927	(153,462,549)
Vehicles	(66,218)	-	34,515	(31,703)
Equipment	(238,768)	(22,818)	17,676	(243,910)
Total accumulated depreciation	(148,705,696)	(5,831,797)	526,118	(154,011,375)
Total capital assets being depreciated,net	151,367,449	2,692,314	(2,504,330)	151,555,433
Governmental activities capital assets,net	162,141,826	23,287,654	(11,028,441)	174,401,039
Business-type activities:				
<i>Capital assets, being depreciated:</i>				
Vehicles	8,936,386	1,091,098	(337,369)	9,690,115
Equipment	33,725	53,892	-	87,617
Total capital assets,being depreciated	8,970,111	1,144,990	(337,369)	9,777,732
Less accumulated depreciation for:				
Vehicles	(4,098,818)	(819,030)	252,777	(4,665,071)
Equipment	(29,485)	(1,413)	-	(30,898)
Total accumulated depreciation	(4,128,303)	(820,443)	252,777	(4,695,969)
Business type activities capital assets, net	4,841,808	324,547	(84,592)	5,081,763

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2003**

NOTE 4 – CAPITAL ASSETS (Continued)

At June 30, 2003 the District had \$ 22,845,606 in construction in progress for the following projects:

CONSTRUCTION IN PROGRESS		Total CIP	
Zone	Description	By Project	Totals By Zone
1	West State Street Drain	\$ 9,442,469	
1	Ely Basin #3 Outlet	35,040	
1	West Fontana Channel	79,321	
1	Grove Avenue Detention Basin	402,757	
1	Riverside Dr. Storm Drain Segme	1,942,158	
1	County Line Channel	9,939	
1	Grove Basin	10,354	
1	Hermosa Turner Storm Drain	1,448,285	
1	County Line Channel	1,185	
1	Ely Basin #3 Nose Pier	60	
1	Hickory Basin	1,481,967	
1	San Sevaine Conservation Basin	291,452	
1	San Sevaine System	19,924	
1	SPPL Relocation	47,554	
1	San Sevaine Channel IIID	64,124	
1	Etiwanda Levees	235,303	
1	San Sevaine RCB at Foothill	2,080	
1	Victoria Basin	18,870	
1	Etiwanda San Sevaine Bur of Rec	233,969	
1	Etiwanda Channel	25,947	
1	Etiwanda Creek - Design & Const	9,237	\$ 15,801,995.00
2	Cactus Basin	352,798	
2	Rialto Channel Phase 2	20,302	
2	Rialto Channel Phase 3	4,529	
2	Randall Basin	6,092	
2	Rialto Channel	689	
2	Del Rosa Channel	12,878	
2	Cactus Basin # 3	134,151	
2	Cactus Basin # 4	43,333	
2	Cacuts Basin # 5	42,741	
2	Rialto Channel (Ultimate Channel	236,821	
2	Linden Avenue Storm Drain	147,292	
2	Sand Creek/Warm Creek	12,013	
2	San Timeteo Creek Channel	287,508	
2	San Timeteo	180,000	
2	Santa Ana River	526,912	
2	San Timeteo Creek Channel	218	2,008,277
3	Sar Mitigation	495	
3	Wooly Star Biology	123,219	
3	San Timeteo Channel	1,196,444	
3	Seven Oaks Dam Tres Lagos	4,803	
3	San Timeteo Channel, Phase 3B	3,353,755	4,678,716
4	Oro Grande Wash Detention Bas	5,800	
4	Mojave River at I-15	45,291	
4	Hesperia Detention Basin	19,079	
4	Hesperia MPD	163	
4	Desert Knolls Wash	103,092	
4	Mojave Drive Channel	87,753	
4	Antelope Creek Wash	22,148	
4	Mojave Narrows Park Drainage	1,605	
4	ChoiceanaOutlet @ Mojave River	9,992	294,923
5	Rim Forest Drainage	115	
5	Houston Creek	9,245	9,360
6	Donnell Basin	21,437	
6	Sand Canyon Creek-BB	30,898	52,335
Totals Zones 1-6, LADP, NPDES		\$ 22,845,606	\$ 22,845,606

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2003**

NOTE 4 – CAPITAL ASSETS (Continued)

The District has active major construction projects as of June 30, 2003. The projects include new construction and renovations of dams, channels, basins and storm drains. At year end the government's commitments with contractors are as follows:

Project	Remaining Commitment	Financing Sources
West State Street Storm Drain	\$ 304,295	Government Aid and Property taxes
Riverside Drive Storm Drain	6,273,452	Government Aid and Property taxes
Grove Avenue Detention Basin	195,002	Government Aid and Property taxes
Etiwanda/San Sevaine Channel/Basin	10,117,649	Government Aid and Property taxes
Rialto Channel	1,034,495	Government Aid and Property taxes
Cactus Basin	154,136	Government Aid and Property taxes
Linden Avenue Storm Drain	9,200	Government Aid and Property taxes
San Timeteo Creek	181,734	Government Aid and Property taxes
Desert Knolls Wash	81,677	Government Aid and Property taxes
Mojave River	15,766	Government Aid and Property taxes
Hesperia MPD	9,670	Government Aid and Property taxes
City of Needles/Drainage	40,504	Government Aid and Property taxes
Total	\$ 18,417,580	

NOTE 5 – CAPITAL LEASES PAYABLE

County Flood Control is leasing computer equipment (recorded in the Governmental funds) and six pick-up trucks (recorded in the Equipment Fund). The District will acquire all rights and titles to the equipment and vehicles after the final lease payments are made.

The following is a schedule by year of future minimum lease payments as of June 30, 2003:

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2003**

NOTE 5 – CAPITAL LEASES PAYABLE (Continued)

<u>Year End June 30.</u>	Governmental Activities	Internal Service Fund Equipment Rental
2004	\$ -	\$ 31,353
2005	-	34,202
2006	-	34,202
2007	-	5,700
Total Minimum Payments	-	105,457
Less: Amount Representing Interest	-	(8,216)
Present Value of Minimum Lease Payments	\$ -	\$ 97,241

The assets acquired through capital leases are as follows:

	Governmental Activities	Internal Service Fund Equipment Rental
Asset:		
Equipment and Vehicles	\$ 280,082	\$ 150,299
Less: Accumulated Depreciation	(243,910)	(53,229)
Total	\$ 36,172	\$ 97,070

NOTE 6 – DEFERRED REVENUE

Deferred revenue represents amounts for the Etiwanda San Sevaine project held in outside bank accounts where revenue recognition has not yet occurred. Deferred revenue is \$ 1,184,944 at June 30, 2003.

NOTE 7 – LOANS PAYABLE

Loans Payable consist of loans from the United States Department of the Interior, Bureau of Reclamation for \$ 11,361,512, the City of Loma Linda Redevelopment Agency for \$ 165,000, and the United States Army Corp of Engineers for \$ 6,000,000.

San Bernardino County Flood Control entered into a loan agreement with the Bureau of Reclamation, for the construction of the San Sevaine Creek Water Project. Amounts owed are determined annually until the project is completed (approximately 8 years) based on costs incurred but will not exceed \$ 20 million. After completion, the County has 15 years to pay back the liability along with 7% interest. The project has not been completed as of June 30, 2003 and the final loan balance and repayment schedule has not been determined at this time.

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2003**

NOTE 7 – LOANS PAYABLE (Continued)

San Bernardino County Flood Control entered into a contract to reimburse the City of Loma Linda Redevelopment Agency for the San Timeteo Creek Project during fiscal year ending June 30, 2002. The County agreed to pay the City of Loma Linda Redevelopment Agency \$ 1,200,000 (interest free) over a four year period beginning in fiscal year end June 30, 2002. The District paid a principal loan payment of \$ 600,000 during the fiscal year end June 30, 2003. The current portion of the loans payable on the Redevelopment Agency loan is \$ 165,000.

The Flood Control district entered into a loan agreement with the United States Army Corp of Engineers for the San Timeteo Creek Project during fiscal year ending June 30, 2001. The County has agreed to pay back the loan upon completion of the project and accrued interest. (Interest is to be determined by the Secretary of the Treasury upon completion of the project.) The unpaid loan balance at June 30, 2003 was \$ 6,000,000. The San Timeteo Project has not been completed at June 30, 2003.

The following is a schedule by year of future loan repayments as of June 30, 2003:

Year Ending June 30,	City of Loma Linda Redevelopment Agency San Timeteo Creek	U.S. Army Corp of Engineers San Timeteo Creek	J.S. Department of Interior Bureau of Reclamation San Sevaine Creek	Total
2004	\$ 165,000	-	\$ -	\$ 165,000
2005				
2006				
2007				
2008	-	6,000,000	11,361,512	17,361,512
	<u>\$ 165,000</u>	<u>\$ 6,000,000</u>	<u>\$ 11,361,512</u>	<u>\$ 17,526,512</u>

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2003**

NOTE 8 LONG TERM OBLIGATIONS

A schedule of changes in Long Term obligations of the District during 2003, follows:

	Principal Outstanding June 30, 2002			Principal Outstanding June 30, 2003		Amounts Due in One Year
	Additions	Deletions				
Governmental Activities						
Capital Leases-5.20%	\$ 12,201	\$ -	\$ 12,201	\$ -	\$ -	
Compensated Absence	933,991	578,127	477,199	1,034,919	-	
Loan-Bureau of Reclamation	11,008,467	353,045		11,361,512	-	
Loan City of Loma Linda-Redevelopment	765,000		600,000	165,000	165,000	
U.S. Army Corp of Engineers	5,000,000	1,000,000	-	6,000,000	-	
Total Governmental	<u>\$ 17,719,659</u>	<u>\$ 1,931,172</u>	<u>\$ 1,089,400</u>	<u>\$ 18,561,431</u>	<u>\$ 165,000</u>	
Business Type Activities						
Capital Leases-5.20%	\$ 125,582	\$ -	\$ 28,341	\$ 97,241	\$ 27,302	
Total Business Type	<u>\$ 125,582</u>	<u>\$ -</u>	<u>\$ 28,341</u>	<u>\$ 97,241</u>	<u>\$ 27,302</u>	

NOTE 9 – CUSTOMER DEPOSITS

Customer Deposits represent amounts held by County Flood Control District on behalf of customers of the district that are required to make deposits for various projects that require rights of way and easements on County Flood Control and access to water for construction purposes.

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2003**

NOTE 10 – PRIOR PERIOD ADJUSTMENT TO NET ASSETS

On July 1, 2002 net assets were overstated by \$ 2,504,330. The net assets beginning balance was restated with a prior period adjustment to delete fixed assets that did not belong to flood control. The restatement of net assets is as follows:

Net Assets previously reported at June 30, 2002	\$ 205,316,441
Prior Period Adjustment to record the reduction of Fixed Assets	(2,504,330)
Net Assets Restated, June 30, 2002	<u><u>\$ 202,812,111</u></u>

NOTE 11 – BEGINNING FUND BALANCE/NET ASSETS

Fund Balance as previously reported on July 1, 2002	\$ 60,894,274
Net Capital Assets at June 30, 2002	159,637,496
Less: Notes payable and capital leases payable	(17,719,659)
	<u><u>141,917,837</u></u>
Net Assets at June 30, 2002	<u><u>\$ 202,812,111</u></u>

NOTE 12 – NET ASSETS ENDING JUNE 30, 2003

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

	<u>Governmental Activities</u>	<u>Internal Service Fund Activities</u>
Invested in Capital Assets, Net of Related Debt: June 30, 2003		
Net Structures, Construction in Progress, Dams, Channels, Drainage Systems, Equipment and Vehicles	\$ 174,401,039	\$ 5,081,760
Less: Loans payable on Infrastructure and capital leases on vehicles,equipment	<u>(17,526,509)</u>	<u>(97,241)</u>
	156,874,530	4,984,519
Unrestricted	60,342,246	1,966,902
Total Net Assets	<u><u>\$ 217,216,776</u></u>	<u><u>\$ 6,951,421</u></u>

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2003**

NOTE 13: RETENTIONS PAYABLE

The District retains 10% of construction contracts until contracts are completed and approved. Some contracts require that the retention be deposited into an escrow account, while for all others, the final 10% payment is not made until the work is completed and approved. At June 30, 2003, the District's Retentions Payable balance was \$1,193,347; of which \$768,272 was on deposit with an external fiscal agent while \$425,075 was held by Flood Control.

NOTE 14: DUE TO OTHER GOVERNMENTS

At June 30, 2003, the \$1,439,177 balance is composed of \$1,137,308 due to Orange County as reimbursement for their fronted share of cost of the Seven Oaks Dam Project and the remaining \$301,869 is for vehicle rentals, equipment usage, and direct labor costs rendered by other governments. The amount due for the Seven Oaks Dam project represents eminent domain deposits the court's placed with Flood Control on behalf of the local county flood control district sponsors; Riverside, San Bernardino, and the Orange Counties. . This payment is the excess share of cost allocated to Orange County at the completion of the. Riverside's share has been paid

NOTE 15 – CONTINGENT LIABILITY – DAY CREEK PROJECT

In October 1986, the District entered into a loan agreement with the Federal Government for construction of the Day Creek Project for \$ 13.4 million. A subsequent agreement between the County (on behalf of the District) and the City of Rancho Cucamonga Redevelopment Agency (Agency) provides the terms and conditions for repayment of the loan. Payments are reflected in Zone 1 as other revenue (from the Agency) and debt service-principal (to Bureau of Reclamation). This agreement is to be in force approximately 24 years or until the project is complete and the federal loan is repaid. Payments commenced in 1992 and the remaining balance of the loan as of June 30, 2003, is \$ 5,316,047. The District is contingently liable for the loan if the Agency defaults.

NOTE 16 – LITIGATION AND OTHER CLAIMS

The District is a defendant in various lawsuits and other claims arising in the ordinary course of its operations. No accrual for these loss contingencies has been made on the financial statements because the District participates in the County's self-insurance program, which is administered by the Risk Management division of the County's Human Resources Department. Any resulting losses will be charged to the Risk Management Division.

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2003**

NOTE 17 – RETIREMENT PLAN

Plan Description

The San Bernardino County Employees Retirement Association (SBCERA) is a cost sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which includes the District), the organizations listed below were added later:

City of Big Bear Lake
City of Chino Hills
California State Association of Counties
San Bernardino County Law Library
Crest Forest Fire Protection District
Mojave Desert Air Quality Management District
South Coast Air Quality Management District
Local Agency Formation Commission

The District and others covered under the plan are collectively referred to as the “Participating Members”. The plan is governed by the San Bernardino County Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand alone financial report, which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, San Bernardino, California 92415-0014.

Funding policy

Participating members are required by statute (Sections 31621, 31521.2 and 32639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age and classification (general and safety). Members are required to contribute 8.36% -13.46% of their annual covered salary of which the District pays approximately 7%. Employers are required to contribute 8.90% of the current year covered payroll. During the year, the District paid \$ 872,714 to the plan as the Employer’s share. Employee contribution rates were established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

NOTE 18 – PROPOSTION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, establishes limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2003**

NOTE 19 – SELF INSURANCE

The District participates in a Public Entity Risk Pool Sponsored by the County of San Bernardino (County). The only insurance costs the District will incur will be for annual premiums paid to the Risk Management Fund. Insurance premiums totaled \$ 948,641 for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$ 250,000 per occurrence. Excess insurance coverage up to \$ 30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC). Excess Insurance Authority "EIA" Liability Program II. Workers' compensation claims are self insured up to \$ 1 million per occurrence and covered by an independent carrier for the balance up to \$ 2 million for employer's liability and for worker's compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$ 25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claim. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, worker's compensation and medical malpractice programs. Quarterly disbursements are received by the County for reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The total County claims liability of \$86,764,373 reported at June 30, 2003, is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

**County Of San Bernardino
Flood Control District
Notes To The Financial Statements
For The Fiscal Year Ending June 30, 2003**

NOTE 19 – INSURANCE (Continued)

Changes in the claims liability amount in fiscal years 2002 and 2003 were (in thousands):

Fiscal Year	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-end
2001-02	\$ 61,172	61,832	(27,716)	\$ 95,288
2002-03	\$ 95,288	23,647	(32,171)	\$ 86,764

The County Flood Control District did not have any outstanding liability claims filed against the District for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and worker's compensation claims for the year ending June 30, 2003.

Required Supplementary Information
County Of San Bernardino Flood Control District
Budgetary Comparison Schedule – Special Revenue Funds
For The Fiscal Year Ended June 30, 2003

Flood Control	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final		
			Budgetary Basis	Final Budget
				Positive(negative)
Budgetary fund balance				
July 1, 2002	\$ 45,975,455	\$ 45,975,454	\$ 60,894,274	\$ 14,918,820
Resources (inflows):				
Property Taxes	20,098,900	20,580,900	21,615,830	1,034,930
Use of Money and Property	3,164,700	2,383,700	1,704,101	(679,599)
Other Governmental Aid	65,608,845	65,175,945	11,735,658	(53,440,287)
Charges for Services	248,400	781,000	938,597	157,597
Other Revenue	2,380,750	9,442,850	950,900	(8,491,950)
Amounts available for				
appropriation	137,477,050	144,339,849	97,839,360	(46,500,489)
Charges to appropriations (outflows)				
Salaries and Benefits	9,740,302	11,866,802	7,366,458	4,500,344
Services and Supplies	121,691,718	120,820,717	6,923,072	113,897,645
Debt Service Principal		1,300,000	1,281,315	18,685
Debt Service Interest		9,800	26,956	(17,156)
Other Charges	4,790,700	11,322,530	255,577	11,066,953
Capital Outlay	115,000	115,000	20,608,814	(20,493,814)
Reimbursements	1,139,330	(1,095,000)	-	(1,095,000)
Total charges to Appropriations	137,477,050	144,339,849	36,462,192	107,877,657
Budgetary Fund Balance, June 30,				
2003	\$ -	\$ -	\$ 61,377,168	\$ 61,377,168

**COUNTY OF SAN BERNARDINO - FLOOD CONTROL DISTRICT
COMBINING BALANCE SHEET
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

SCHEDULE 2

SPECIAL REVENUE FUNDS

	<u>TOTAL</u>	<u>ADMIN</u>	<u>ZONE 1</u>	<u>ZONE 2</u>	<u>ZONE 3</u>	<u>ZONE 4</u>	<u>ZONE 5</u>	<u>ZONE 6</u>	<u>MISSION ZANJA</u>	<u>ETIWANDA DRAINAGE</u>	<u>BLED SOE CREEK</u>	<u>NPDES</u>
ASSETS												
Cash in Treasury	\$ 63,346,490	\$ 284,524	\$ 27,735,624	\$ 6,699,269	\$ 6,054,635	\$ 15,640,751	\$ 1,380,585	\$ 1,253,096	\$ 181,744	\$ 3,294,023	\$ 73,404	\$ 748,835
Cash With Fiscal Agent	768,272		768,272									
Restricted Cash-Trust	1,297,983		1,297,983									
Customer Deposits	60,000		60,000									
Other Cash and Cash Equivalents												
Subtotal Cash and Investme	<u>65,472,745</u>	<u>284,524</u>	<u>29,861,879</u>	<u>6,699,269</u>	<u>6,054,635</u>	<u>15,640,751</u>	<u>1,380,585</u>	<u>1,253,096</u>	<u>181,744</u>	<u>3,294,023</u>	<u>73,404</u>	<u>748,835</u>
Accounts Receivable												
Interest Receivable	320,238	3,416	142,320	39,203	12,630	85,737	7,439	5,595	949	18,420	383	4,146
Property Taxes Receivable	1,167,140	68,901	530,390	215,354	136,377	156,635	13,774	45,709				
Advances to Other Funds												
Due From Other Funds	1,147,274	8,222	15,341	1,095,654	5,702							22,355
Due From Other Governments	699,927	46,626	422,775		221,351							9,175
TOTAL ASSETS	<u>\$ 68,807,324</u>	<u>\$ 411,689</u>	<u>\$ 30,972,705</u>	<u>\$ 8,049,480</u>	<u>\$ 6,430,695</u>	<u>\$ 15,883,123</u>	<u>\$ 1,401,798</u>	<u>\$ 1,304,400</u>	<u>\$ 182,693</u>	<u>\$ 3,312,443</u>	<u>\$ 73,787</u>	<u>\$ 784,511</u>
LIABILITIES AND FUND BAL												
Liabilities:												
Accountants Payable	\$ 1,927,855	\$	\$ 1,432,684	\$ 71,458	\$ 169,713	\$ 16,828	\$ 46,056	\$ 21,257	\$	\$	\$	\$ 169,859
Retentions Payable	1,193,347		1,139,487	32,062				21,798				
Salaries and Benefits Payab	471,139	34,517	165,546	110,405	86,731	53,449	3,096	17,395				
Due to Other Funds	1,147,274	30,579	21,576	7,200	1,086,118							1,801
Due to Other Governments	1,439,177	26,123	165,287	45,894	1,188,934	12,338	59	509				33
Advances from Other Funds												
Deferred Revenue	1,184,944		1,184,944									
Interest Payable												
Loans Payable												
Customer Deposits	66,420		66,420									
Total Liabilities	<u>7,430,156</u>	<u>91,219</u>	<u>4,175,944</u>	<u>267,019</u>	<u>2,531,496</u>	<u>82,615</u>	<u>49,211</u>	<u>60,959</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>171,693</u>
Fund Balance:												
Reserved for Encumbrances	12,587,280	90,739	11,470,595	714,451	203,243	10,770		34,349				63,133
Unreserved	48,789,888	229,731	15,326,166	7,068,010	3,695,956	15,789,738	1,352,587	1,209,092	182,693	3,312,443	73,787	549,685
Total Fund Balance	<u>61,377,168</u>	<u>320,470</u>	<u>26,796,761</u>	<u>7,782,461</u>	<u>3,899,199</u>	<u>15,800,508</u>	<u>1,352,587</u>	<u>1,243,441</u>	<u>182,693</u>	<u>3,312,443</u>	<u>73,787</u>	<u>612,818</u>
TOTAL LIABILITIES AND FUI	<u>\$ 68,807,324</u>	<u>\$ 411,689</u>	<u>\$ 30,972,705</u>	<u>\$ 8,049,480</u>	<u>\$ 6,430,695</u>	<u>\$ 15,883,123</u>	<u>\$ 1,401,798</u>	<u>\$ 1,304,400</u>	<u>\$ 182,693</u>	<u>\$ 3,312,443</u>	<u>\$ 73,787</u>	<u>\$ 784,511</u>

COUNTY OF SAN BERNARDINO - FLOOD CONTROL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

SCHEDULE 3

	SPECIAL REVENUE FUNDS											
	TOTAL	ADMIN	ZONE 1	ZONE 2	ZONE 3	ZONE 4	ZONE 5	ZONE 6	MISSION ZANJA	ETIWANDA DRAINAGE	BLED SOE CREEK	NPDES
REVENUES												
Property Taxes	\$ 20,693,673	\$ 1,227,256	\$ 9,385,167	\$ 3,982,745	\$ 2,119,251	\$ 2,857,477	\$ 238,151	\$ 883,626	\$	\$	\$	\$
Other Taxes	922,157	55,632	454,165	177,597	84,480	107,405	9,434	33,444				
Governmental Aid	11,735,658	32,936	3,428,953	1,340,285	6,182,197	60,644	5,332	19,611				665,700
Licenses, Permits and Franchises	46,803		19,252	16,946	8,259	1,661		685				
Rents and Concessions	346,140		158,522	137,921	15,399	26,989		7,309				
Royalties	592,457		388,684	199,039	4,557	177						
Interest	1,704,101	12,703	796,071	184,493	93,848	426,589	36,896	23,310	5,245	102,962	2,118	19,866
Other Taxes	722,626	8,769	636,377	(35,799)	(25,553)	(12,832)	(1,886)	(10,301)		42,277		121,574
Total Revenues	36,763,615	1,337,296	15,267,191	6,003,227	8,482,438	3,468,110	287,927	957,684	5,245	145,239	2,118	807,140
EXPENDITURES												
Salaries and Benefits	7,366,457	1,093,773	2,433,096	1,479,416	1,191,440	741,412	54,887	308,732				63,701
Services and Supplies	6,923,072	724,500	2,597,092	840,618	1,350,669	571,675	27,411	122,393				688,714
Debt Services:												
Principal	1,281,315		681,315		600,000							
Interest	26,956		26,956									
Other Charges	140,805	2,026	43,963		4,728	18,015	49,304	22,769				
Capital Outlay	20,608,814	13,475	14,715,425	1,006,321	4,729,705	91,554		52,334				
Inter-Fund Transfers In (Out) Net	114,773	(5,727)	56,400	25,000	13,500	18,500	1,600	5,500				
Total Expenditures	36,462,192	1,828,047	20,554,247	3,351,355	7,890,042	1,441,156	133,202	511,728	0	0	0	752,415
Excess (Deficiency) of Revenues Over Expenditures	301,423	(490,751)	(5,287,056)	2,651,872	592,396	2,026,954	154,725	445,956	5,245	145,239	2,118	54,725
OTHER FINANCING SOURCES (Uses)												
Operating Transfers In	4,520,502	750,000	2,000,000	750,000	1,020,502							
Operating Transfers Out	(4,520,502)		(2,351,300)	(1,526,202)	(483,800)	(115,000)	(10,000)	(34,200)				
Sale of Fixed Assets	181,471		85,161	14,470	81,840							
Total Other Financing Sources (Uses)	181,471	750,000	(266,139)	(761,732)	618,542	(115,000)	(10,000)	(34,200)	0	0	0	0
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	482,894	259,249	(5,553,195)	1,890,140	1,210,938	1,911,954	144,725	411,756	5,245	145,239	2,118	54,725
Fund Balance July 1, 2002	60,894,274	61,221	32,349,957	5,892,321	2,688,260	13,888,554	1,207,862	831,685	177,448	3,167,204	71,669	558,093
Fund Balance June 30, 2003	\$ 61,377,168	\$ 320,470	\$ 26,796,762	\$ 7,782,461	\$ 3,899,198	\$ 15,800,508	\$ 1,352,587	\$ 1,243,441	\$ 182,693	\$ 3,312,443	\$ 73,787	\$ 612,818

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

AUDITOR/CONTROLLER • 222 West Hospitality Lane, Fourth Floor
San Bernardino, CA 92415-0018 • (909) 387-8322 • Fax (909) 386-8830

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San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

October 3, 2003

Ken A. Miller, Director
Department of Public Works
825 East Third Street
San Bernardino, CA 92415-0835

**SUBJECT: MANAGEMENT LETTER – SAN BERNARDINO COUNTY FLOOD
CONTROL DISTRICT- FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of the Flood Control District (the District) for the fiscal year ended June 30, 2003.

Auditor's Report

We have audited the accompanying balance sheet of the District as of June 30, 2003, and the related financial statements for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. As part of our audit, we made a study of the District's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

Nature of Internal Control

The management of the District is responsible for establishing and maintaining the system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation, made for the limited purpose described in the first paragraph, would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting controls of the District. However, our study and evaluation disclosed no condition that we believe to be a material weakness.

This report is intended solely for the use of management and the Board of Supervisors and should not be used for any other purpose.

FINDINGS AND RECOMMENDATIONS

Finding One: **Retentions and cash that were on deposit with a fiscal agent were not properly accounted for or reported at fiscal year end.**

A liability for retentions should be recorded when the liability is incurred and reported in total. However, only the change in the retentions balance from the prior year was recorded. Also, cash held with a fiscal agent was not accrued as an asset nor were expenditures adjusted.

Fiscal staff tracks the retentions on a spreadsheet but it had not been updated for some time. As such, accounting records were not updated so that the retention's balance could be readily determined nor could the cash on deposit with fiscal agents be verified as staff did not receive copies of the escrow/bank statements.

Recommendations

Implement procedures to ensure that retentions are updated for each transaction and are properly recorded and reported. Submit adjustments through the year-end accrual process to adjust expenditures and cash held with a fiscal agent. Also, speak to County Counsel about incorporating new language into the construction contracts to ensure that Flood Control has the ability to inquire about escrow balances and to receive copies of escrow/bank statements until the monies are released upon final payment.

Auditee's Response

We will review and update the escrowed retentions regularly to ensure the spreadsheet or database reflects the most current information. Adjustments to retentions will be processed through the year-end accrual process. We will also obtain a copy of the escrow/bank statements.

Finding Two: **Fixed assets are depreciated for more than actual cost which results in over charging departments for the use of equipment.**

The cost of equipment is depreciated, or expensed, over its useful life and this cost is recovered through a depreciation charge, or depreciation rate, to the departments renting the equipment. Currently, departments are being overcharged for the rental of equipment that has been fully depreciated causing rental income to be overstated. In addition, the overstatement requires the auditor to make an adjustment to the FAS to correct depreciation annually.

Flood Control indicated that equipment is over depreciated because the Public Works Job Cost Accounting System (PWJCAS) is not programmed to stop calculating depreciation when equipment is fully depreciated.

Recommendations

Contact ISD to determine the feasibility of reprogramming the PWJCAS to properly depreciate equipment. Also, implement procedures to periodically verify that depreciation rates are correctly adjusted for fully depreciated equipment.

Auditee's Response

We are in the process of replacing the aging PWJCAS with a new cost accounting system which will prevent this type of occurrence. In the meantime, we have contacted

Ken A. Miller, Director
Public Works
October 3, 2003
Page 4

ISD to reprogram the PWJCAS to ensure that depreciation stops when the equipment is fully depreciated. In addition, we will closely monitor the depreciation rates to ensure proper rates are reflected in the accounting records.

We would like to express our appreciation for the cooperation and assistance provided to the auditors during our field visits.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By: _____
Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Quarterly Copies to:

County Administrative Officer
Board of Supervisors
Grand Jury (2)
Flood Control
Audit file (3)

Date Report Distributed: _____

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COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
COUNTY SERVICE AREA NO. 60
APPLE VALLEY AIRPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Prepared by:
Internal Audits Section
Office of the Auditor/Controller-Recorder
November 21, 2003

**County of San Bernardino Special Districts
County Service Area No. 60
Apple Valley Airport
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COUNTY OF SAN BERNARDINO

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

November 21, 2003

John William Ingraham, Director
Department of Airports
825 East Third Street
San Bernardino, CA 92415-0831

**SUBJECT: AUDIT OF COUNTY SERVICE AREA NO. 60 – APPLE VALLEY
AIRPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of County Service Area No. 60 – Apple Valley Airport for the fiscal year ended June 30, 2003.

Auditor's Report

We have audited the accompanying financial statements of the business-type activities of the County of San Bernardino Special District County Service Area No. 60 – Apple Valley Airport (CSA), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2003. These basic financial statements are the responsibility of the CSA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial

statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the CSA as of June 30, 2003, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The CSA has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker
Auditor/Controller-Recorder

By: Barbara K. Redding, CPA, CGFM
Internal Audits Manager

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County of San Bernardino
County Service Are No. 60 - Apple Valley Airport
Statement of Net Assets
Proprietary Funds
June 30, 2003

	<u>Enterprise Fund</u> <u>Airport</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 5,258,489
Accounts receivable	159,839
Taxes receivable	61,498
Interest receivable	<u>27,394</u>
Total current assets	<u>5,507,220</u>
Noncurrent assets:	
Capital assets:	
Land	3,076,135
Construction in progress	406,735
Improvements to land	3,708,675
Structures and improvements	1,618,148
Equipment and vehicles	284,645
Less accumulated depreciation	<u>(2,099,047)</u>
Total noncurrent assets	<u>6,995,291</u>
Total assets	<u><u>\$ 12,502,511</u></u>
 LIABILITIES	
Current liabilities:	
Salaries and benefits payable	\$ 20,582
Due to other government	625
Deferred revenue	<u>14,364</u>
Total current liabilities	<u>35,571</u>
 NET ASSETS	
Invested in capital assets, net of related debt	6,995,291
Restricted	20,214
Unrestricted	<u>5,451,435</u>
Total net assets	<u>12,466,940</u>
Total liabilities and net assets	<u><u>\$ 12,502,511</u></u>

The notes to the financial statements are an integral part of this statement

County of San Bernardino
County Service Are No. 60 - Apple Valley Airport
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
June 30, 2003

	<u>Enterprise Fund</u> <u>Airport</u>
OPERATING REVENUES	
Charges for services	\$ 161,873
Total operating revenues	<u>161,873</u>
OPERATING EXPENSES	
Salaries and benefits	429,502
Professional services	83,478
Services and supplies	155,776
Utilities	64,185
Rents and leases	6,824
Depreciation	<u>264,793</u>
Total operating expenses	<u>1,004,558</u>
Operating Income (Loss)	<u>(842,685)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest	137,376
Property taxes	1,115,289
Other taxes	79,159
State aid	10,000
Other nonoperating revenues	<u>21,803</u>
Total nonoperating revenues (expenses)	<u>1,363,627</u>
Income before other revenues	520,942
Capital contributions	<u>33,000</u>
Increase (decrease) in net assets	553,942
Net assets - beginning (restated)	<u>11,912,998</u>
Net assets - ending	<u><u>\$ 12,466,940</u></u>

The notes to the financial statements are an integral part of this statement

**County of San Bernardino
County Service Are No. 60 - Apple Valley Airport
Statement of Cash Flows
Proprietary Funds
June 30, 2003**

	Enterprise Fund
	<u>Airport</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from user charges	\$ 176,237
Payments to employees for services and benefits	(431,866)
Payments to suppliers for goods and services	<u>(309,638)</u>
Net cash provided (used) by operating activities	<u>(565,267)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Taxes received	1,132,951
Grants received	10,000
Other receipts	<u>21,802</u>
Net cash provided (used) by noncapital financing activities	<u>1,164,753</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments related to the acquisition, construction and improvement of capital assets	<u>(67,812)</u>
Net cash provided (used) by capital and related financing activities	<u>(67,812)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest	<u>118,555</u>
Net cash provided (used) by investing activities	<u>118,555</u>
Net increase in cash and cash equivalents	650,229
Cash and cash equivalents - beginning (restated)	<u>4,608,260</u>
Cash and cash equivalents - ending	<u><u>\$ 5,258,489</u></u>
	<i>(Continued)</i>

The notes to the financial statements are an integral part of this statement

**County of San Bernardino
County Service Are No. 60 - Apple Valley Airport
Statement of Cash Flows
Proprietary Funds
June 30, 2003**

**RECONCILIATION OF OPERATING INCOME(LOSS) TO NET CASH PROVIDED BY
OPERATING ACTIVITIES:**

Operating income (loss)	\$ (842,685)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	264,793
Decrease in salaries and benefits payable	(2,364)
Increase in due to other governments	625
Increase in deferred revenue	<u>14,364</u>
Net cash provided by operating activities	<u>\$ (565,267)</u>

NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:

Receivables related to infrastructure financing in prior years	159,839
Contributions of capital assets from private enterprise	33,000

The notes to the financial statements are an integral part of this statement

**County of San Bernardino
County Service Area No. 60 - Apple Valley Airport
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The County Service Area No. 60 – Apple Valley Airport ("CSA") – is a special district located within the County of San Bernardino. The CSA has governmental powers as established by the San Bernardino County Government Charter ("County"). The County was established in 1852 as a legal subdivision of the State of California.

The CSA was established by an act of the Board of Supervisors of the County of San Bernardino on December 19, 1966 to provide airport service to the Town of Apple Valley. Currently, the CSA administers control and staffs the airport, funding the operation and maintenance of the Apple Valley Airport. There is not an advisory commission for the CSA.

The CSA is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (i) the County has the ability to impose its will on the organization, or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of County Service Area No. 60 and are not intended to present the financial position of the County taken as a whole.

Measurement focus, basis of accounting, and financial statement presentation

The proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

County of San Bernardino
County Service Area No. 60 - Apple Valley Airport
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the CSA enterprise funds is charges to customers for rental of hangars and other leases. Operating expenses for enterprise funds include the cost of salaries and benefits, services and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectibles when applicable.

**County of San Bernardino
County Service Area No. 60 - Apple Valley Airport
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Structures & improvements	5 – 45
Equipment and vehicles	6 – 15

**County of San Bernardino
County Service Area No. 60 - Apple Valley Airport
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Deferred Revenue

Amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met, are recorded on the basic financial statements as deferred revenue. The CSA has deferred revenues of \$14,364 from rents and concessions at June 30, 2003.

Net assets

Net assets comprise the various net earning from operating and non-operating revenues, expenses and contribution of capital. Net assets are classified in the following three components:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributors, or laws or regulations, of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This component of net assets consist of net assets of the CSA that are not restricted for any project or other purpose.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**County of San Bernardino
County Service Area No. 60 - Apple Valley Airport
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the CSA's account based upon the CSA's average daily deposit balance during the allocation period.

The CSA restated its Cash and Cash Equivalents balance, as presented in the table below, at July 1, 2002 to include the cash balances of special revenue funds that were reclassified to enterprise funds in fiscal year 2003: (See Note 10)

	<u>Enterprise Fund</u>
Beginning unadjusted balance of Cash and Cash Equivalents at 7/1/2002	\$ 281,622
Cash balances of special revenue funds reclassified to enterprise funds:	
Add:	
RAI Crosswind Runway	4,198,320
RCH Pavement Building and Roof Repair	1,693
RDL Water Line Extension to S/W Corner	47
REE APV - CHP Commercial Hangar	42,425
RGZ APV - Public Restroom Facility	84,153
	<hr/>
Total adjustments	4,326,638
	<hr/>
Adjusted beginning balance of Cash and Cash Equivalents at 7/1/2002	<u><u>\$ 4,608,260</u></u>

Cash and cash equivalents are shown at fair value as of June 30, 2003.

County of San Bernardino
County Service Area No. 60 - Apple Valley Airport
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 3: ACCOUNTS RECEIVABLE

The CSA entered into three separate agreements with Apple Valley Ranchos Water Company (Utility) to construct distribution facilities for the purpose of furnishing public utility water service to the Apple Valley Airport. The CSA advanced the amount of \$215,523 to cover the cost of these facilities. The CSA is reimbursed by the Utility 2 1/2 percent of the cost per year for 40 years. The current amount outstanding at June 30, 2003, is \$159,839.

NOTE 4: CAPITAL ASSETS

The statement of net assets includes those capital assets among the assets of County Service Area No. 60 as a whole, and their original costs are expensed annually over their useful lives. Capital assets activities during the year are as follows:

	Balance July 1, 2002 (as restated)	Additions	Deletions	Balance June 30, 2003
Capital assets, not being depreciated:				
Land	\$ 3,076,135	\$ -	\$ -	\$ 3,076,135
Construction in Progress	348,815	57,920	-	406,735
Total capital assets, not being depreciated	3,424,950	57,920	-	3,482,870
Capital assets, being depreciated:				
Land Improvements	3,708,675	-	-	3,708,675
Structures	1,585,148	33,000	-	1,618,148
Equipment and Vehicles	296,195	9,892	(21,442)	284,645
Total capital assets, being depreciated	5,590,018	42,892	(21,442)	5,611,468
Less accumulated depreciation for:				
Land Improvements	(888,285)	(180,578)	-	(1,068,863)
Structures	(795,509)	(54,969)	-	(850,478)
Equipment and Vehicles	(171,902)	(29,246)	21,442	(179,706)
Total accumulated depreciation	(1,855,696)	(264,793)	21,442	(2,099,047)
Total capital assets, being depreciated, net	3,734,322	(221,901)	-	3,512,421
Business-type activities capital assets, net	\$ 7,159,272	\$ (163,981)	\$ -	\$ 6,995,291

County of San Bernardino
County Service Area No. 60 - Apple Valley Airport
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 4: CAPITAL ASSETS - *Continued*

At July 1, 2002, the County made the following restatements to capital assets:

Beginning unadjusted balance net of accumulated depreciation	\$ 1,759,670
Restated land improvement beginning balance, net of accumulated depreciation of \$716,692	2,717,988
Restated beginning balance of land	2,332,799
Restated beginning balance of construction in progress	348,815
Adjusted beginning balance of capital assets at July 1, 2002	<u>\$ 7,159,272</u>

Construction in Progress

Construction in progress represents the following projects:

Project Title	Budget	YTD Expenses	Projected Completion Date
South Ramp Hangar Development	\$ 2,200,000	\$ 403,235	2004
Public Restroom Facility	85,000	1,086	2004
Fog Seal airport pavements	67,580	2,299	2004
Airport Layout Plan	66,667	115	2004
Port-A-Port Reconstruction	70,000	-	2004
South Ramp & Taxiway Reconstruction	276,595	-	2004
		<u>\$ 406,735</u>	

NOTE 5: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). The plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which include the CSA) the organization listed below were added later:

- City of Big Bear Lake
- City of Chino Hills
- California State Association of Counties
- San Bernardino County Law Library
- Crest Forest Fire Protection District
- Mojave Desert Air Quality Management District

County of San Bernardino
County Service Area No. 60 - Apple Valley Airport
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 5: RETIREMENT PLAN - *Continued*

- South Coast Air Quality Management District
- Local Agency Formation Commission

The CSA and others covered under the plan are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

NOTE 6: FEDERAL AND STATE GRANTS

From time to time the CSA may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the CSA expects such amounts, if any, to be immaterial.

NOTE 7: SELF INSURANCE

The CSA participates in a Public Entity Risk Pool sponsored by the County of San Bernardino ("County"). The CSA paid \$38,238 in insurance premiums in fiscal year 2003.

County of San Bernardino
County Service Area No. 60 - Apple Valley Airport
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 7: SELF INSURANCE - *Continued*

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

The total County claims liability of \$93,802,000 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

County of San Bernardino
County Service Area No. 60 - Apple Valley Airport
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 7: SELF INSURANCE - *Continued*

Changes in the claims liability amount in fiscal years 2002 and 2003 were:

Fiscal Year	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
	(in thousands)	(in thousands)	(in thousands)	(in thousands)
2002-2003	\$95,288	\$30,685	(\$32,171)	\$93,802
2001-2002	\$61,172	\$61,832	(\$27,716)	\$95,288

NOTE 8: TRANSFERS IN/OUT

Interfund Transfers In/Out transactions are used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital project funds. At June 30, 2003, the CSA made the following Interfund Transfers In and Out:

<u>Fund</u>	<u>Purpose</u>	<u>Amount</u>
EBJ	To RAI for current and future capital outlay	\$ (653,229)
RAI	From EBJ operating fund	<u>653,229</u>
	Net Interfund Transfers	<u>\$ -</u>

County of San Bernardino
County Service Area No. 60 - Apple Valley Airport
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 9: NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

	<u>June 30, 2003</u>
Invested in Capital Assets, Net of Related Debt:	
Net Land, Improvements to Land, Infrastructure, Construction in Progress, Utility Plant in Service, Structures and Improvements, and Equipment and Vehicles	\$ 6,995,291
Add: Prior year contributed capital	-
Less: Revolving loans payable	-
	<u>6,995,291</u>
Restricted	20,214
Unrestricted	<u>5,451,435</u>
Total Net Assets	<u>\$ 12,466,940</u>

NOTE 10: RESTATEMENT OF NET ASSETS

Fund Reclassification

The County evaluated its aviation special revenue funds and reclassified funds that did not meet the definition of special revenue funds to enterprise funds. The effect of these changes resulted in an increase in the beginning fund balance at July 1, 2002, as presented in the table below. The fund reclassification also required the capital assets acquired by these funds to be moved to the enterprise fund. The adjustments are reported under the captions, *Special Revenue Funds Reclassification* and *Governmental Activities Capital Assets Reclassification*, respectively.

Receivable Recognition

The County determined that certain contracts were long-term receivables. As such, the beginning net assets balance described below was increased to capture the outstanding balance of the contracts.

**County of San Bernardino
County Service Area No. 60 - Apple Valley Airport
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 10: RESTATEMENT OF NET ASSETS - Continued

	<u>Enterprise Fund</u>
Beginning net assets, as previously reported	\$ 2,026,919
Special Revenue Funds Reclassification	4,326,638
Governmental Activities Capital Assets Reclassification -- <i>also see Note 4</i>	5,399,602
Receivable Recognition	<u>159,839</u>
Restated net assets balance at June 30, 2002	<u><u>\$ 11,912,998</u></u>

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

November 21, 2003

John William Ingraham, Director
Department of Airports
825 East Third Street
San Bernardino, CA 92415-0831

**SUBJECT: MANAGEMENT LETTER – COUNTY SERVICE AREA NO. 60 - APPLE
VALLEY AIRPORT, FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

In compliance with Section 26909 of the California Government Code, we have audited the general purpose financial statements of the County Service Area No. 60 - Apple Valley Airport for the fiscal year ended June 30, 2003 and have issued our report thereon dated November 21, 2003. In planning and performing our audit of the financial statements, we considered internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. However, we noted certain matters involving internal controls and their operation, which are presented for your consideration.

We do not consider the matter to be a reportable condition under the standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We have not considered internal controls since the date of our report.

These comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve internal controls or result in other operating efficiencies and are summarized as follows.

FINDINGS AND RECOMENDATIONS

Finding One: There were no procedures in place to ensure that all lessee's are billed on a regular basis.

During our test work, we noted one instance where a lessee was not billed by the Airport Administration for rents due on December 2002, and from March 2003 to September 2003. The oversight was due to the lack of procedures that would verify that all lessees are billed on a regular basis. As such, the lessee was using the facility "rent free" until the department was notified of the error in September.

Recommendations

Prepare a checklist of all billings due to customers at any given period. Require that all billings be reviewed and compared to the checklist by a supervisor or designee for accuracy and completeness prior to mailing. Print and review a monthly receivable history report from Aeroware (property management and lease software) to be able to document a tenant billing and payment history.

Auditee's Response

Management agrees. A report listing all customers will be generated after each billing cycle noting customers billed for that cycle and customers excluded from billing. The report will be reviewed by a supervisor to verify sufficient justification is provided for customers excluded from the billing cycle.

Finding Two: Cash or checks not deposited when received.

During our test work, we noted two instances where the Airport Administration held checks for deposit. One check was held with no clear explanation as to why and the other was held waiting the execution of the lease contract. The checks were held in a locked safe until deposited; however, this prevented the CSA from obtaining both interest earnings and use of the funds.

Recommendation

We recommend that payments received be deposited as soon as possible. Payments received while the lease contract is pending approval can be tracked on a schedule that is reconciled and reviewed on a monthly basis.

Auditee's Response

Management agrees. Airport Administration deposits payments twice a week. The check with "no clear explanation" was written on a bank account known to be closed by a prior tenant that had abandoned the lease facilities. There was no intent to deposit the check because full payment on the account is included in payment terms with a subsequent tenant who assumed the lease obligations.

The check pending "execution of a lease" should have been deposited in accordance with existing procedures for payments not yet applied to the credit of a specific Aeroware lease. Procedures are now in place requiring management approval of checks remaining in the safe after each deposit, including justification.

We wish to thank the management and staff for their full cooperation during the audit.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

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Grand Jury (2)
Apple Valley Airport
Audit file (3)

By: _____
Yolanda T. Daugherty
Internal Auditor
Internal Audits Division

Date Report Distributed: _____

LW:YTD:dlp1

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
COUNTY SERVICE AREA No. 70 Zone S-7
LENWOOD SEWER IMPROVEMENTS PROJECT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
October 20, 2003

**County of San Bernardino Special Districts
County Service Area No. 70 Zone S-7
Lenwood Sewer Improvement Project**

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Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

October 20, 2003

Tom Sutton, Interim Director
Office of Special Districts
157 W. Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF COUNTY SERVICE AREA NO. 70 Zone S-7 – LENWOOD
SEWER IMPROVEMENT PROJECT FOR THE FISCAL YEAR ENDED
JUNE 30, 2003**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of County Service Area No. 70 Zone S-7 – Lenwood Sewer Improvements Project for the fiscal year ended June 30, 2003.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities, and each major fund of the County of San Bernardino Special Districts County Service Area No. 70 Zone S-7 – Lenwood Sewer Improvements Project (the District), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether

the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the District, as of June 30, 2003, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The accompanying budgetary comparison information on page 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker
Auditor/Controller-Recorder

Quarterly - Copies to:
County Administrative Office
Board of Supervisors
Grand Jury (2)

By: _____
Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Audit File (3)
Date Report Distributed: _____

LDW:BKR:CL:dlp1

County of San Bernardino
County Service Area No. 70 Zone S-7 – Lenwood Sewer Improvement Project
Statement of Net Assets
For the Fiscal Year Ended June 30, 2003

	Special Revenue Fund
	Sewer
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 330,159
Interest receivable	990
Total current assets	<u>\$ 331,149</u>
Noncurrent assets:	
Capital assets:	
Construction in progress	473,092
Total noncurrent assets	<u>473,092</u>
Total assets	<u><u>\$ 804,241</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	75,802
Total current liabilities	<u>\$ 75,802</u>
NET ASSETS	
Invested in capital assets, net of related debt	473,092
Unrestricted	255,347
Total net assets	<u>\$ 728,439</u>
Total liabilities and net assets	<u><u>\$ 804,241</u></u>

The accompanying notes are an integral part of these financial statements

County of San Bernardino
County Service Area No. 70 Zone S-7 – Lenwood Sewer Improvement Project
Statement of Activities
For the Fiscal Year Ended June 30, 2003

	Special Revenue Fund
	Sewer
EXPENSES	
Improvements to Land	410,004
Total program expenditures	<u>\$ 410,004</u>
PROGRAM REVENUES	
Other services	165
Total program revenues	<u>165</u>
Net program revenues	<u>(409,839)</u>
GENERAL REVENUES	
Interest	6,960
Federal aid	324,129
Other	38,328
Total general revenues	<u>369,417</u>
Change in net assets	(40,422)
Net Assets - beginning	<u>295,769</u>
Net Assets - ending	<u><u>\$ 255,347</u></u>

The accompanying notes are an integral part of these financial statements

County of San Bernardino
County Service Area No. 70 Zone S-7 – Lenwood Sewer Improvement Project
Balance Sheet
Governmental Funds
For the Fiscal Year Ended June 30, 2003

	<u>Sewer</u>
ASSETS	
Cash and cash equivalents	\$ 330,159
Interest receivable	<u>990</u>
Total assets	<u><u>\$ 331,149</u></u>
 LIABILITIES AND FUND BALANCES	
Accounts payable	<u>\$ 75,802</u>
Total liabilities	<u>75,802</u>
 Fund balance:	
Unreserved	(219,653)
Reserved - encumbered	<u>475,000</u>
Total fund balance	<u><u>255,347</u></u>
 Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
 Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	<u>473,092</u>
 Net assets of governmental fund	<u><u>\$ 728,439</u></u>

The accompanying notes are an integral part of these financial statements

County of San Bernardino
County Service Area No. 70 Zone S-7 – Lenwood Sewer Improvements Project
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003

	<u>Sewer</u>
REVENUES	
Interest	\$ 6,960
Federal aid	324,129
Other services	165
Other	<u>38,328</u>
Total revenues	<u>369,582</u>
EXPENDITURES	
Improvements to Land	<u>410,004</u>
Total expenditures	<u>410,004</u>
Excess (deficiency) of revenues over expenditures	<u>(40,422)</u>
Net change in fund balance	(40,422)
Fund balances - beginning	<u>295,769</u>
Fund balances - ending	<u><u>\$ 255,347</u></u>

The accompanying notes are an integral part of these financial statements

County of San Bernardino
County Service Area No. 70 Zone S-7 – Lenwood Sewer Improvements Project
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The County Service Area No. 70 Zone S-7 - Lenwood Sewer Improvements Project (the District) is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter. The County of San Bernardino (the County) was established in 1852 as a legal subdivision of the State of California.

The District was established by an act of the Board of Supervisors of the County (the Board) on December 19, 1977 with the active power of sewer services. Currently, the governmental reporting entity consists of sewer services to the community of Lenwood.

The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable, or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (i) the County has the ability to impose its will on the organization, or (ii) there is potential for the organization to provide a financial benefit to, or impose a financial burden on, the County.

The accompanying financial statements reflect only the accounts of the District and are not intended to present the financial position of the County taken as a whole.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

County of San Bernardino
County Service Area No. 70 Zone S-7 – Lenwood Sewer Improvements Project
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as federal and state grants, the County expanded its definition of “available” to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The District reports the following major governmental fund:

The *special revenue fund* labeled “Sewer” is the government’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

County of San Bernardino
County Service Area No. 70 Zone S-7 – Lenwood Sewer Improvements Project
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Receivables and payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectibles when applicable.

Inventories and prepaid items

Inventories, if any, are valued at cost using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend asset life is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

County of San Bernardino
County Service Area No. 70 Zone S-7 – Lenwood Sewer Improvements Project
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2003.

County of San Bernardino
County Service Area No. 70 Zone S-7 – Lenwood Sewer Improvements Project
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 3: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of the District as a whole, and their original costs are expensed annually over their useful lives. Capital asset activity for governmental activities for the year ended June 30, 2003 follows. All governmental assets are from the sewer activity.

Governmental activities	Balance July 1, 2002	Additions	Deletions	Balance June 30, 2003
Capital assets, not being depreciated:				
Construction in Progress	\$ 63,088	\$ 410,004	\$ -	\$ 473,092
Total capital assets, not being depreciated	63,088	410,004	-	473,092
Total net capital assets	\$ 63,088	\$ 410,004	\$ -	\$ 473,092

Construction in progress represents the following project:

Project Title	Budget	Expenses To Date	Projected Completion Date
New Sewer System for Lenwood Estates	\$21,468,322	\$473,092	2004
Total		\$473,092	

County of San Bernardino
County Service Area No. 70 Zone S-7 – Lenwood Sewer Improvements Project
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 4: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which includes the District), the organizations listed below were added later:

- City of Big Bear Lake
- City of Chino Hills
- California State Association of Counties
- San Bernardino County Law Library
- Crest Forest Fire Protection District
- Mojave Desert Air Quality management District (MDAQMD)
- South Coast Air Quality Management District (AQMD)
- Local Agency Formation Commission (LAFCO)

The District and others covered under the plan are collectively referred to as the “Participating Members.” The plan is governed by the San Bernardino County Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, San Bernardino, California 92415-0014.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the County’s annual pension cost of \$68,361 was equal to the County’s required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

County of San Bernardino
County Service Area No. 70 Zone S-7 – Lenwood Sewer Improvements Project
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 5: SELF INSURANCE

The District participates in a Public Entity Risk Pool sponsored by the County of San Bernardino (County). The District did not incur any insurance costs or annual premiums for the year ended June 30, 2003.

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers' compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers' compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management

Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, workers' compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investment in the agreements totaled \$41,124,812 at June 30, 2003.

County of San Bernardino
County Service Area No. 70 Zone S-7 – Lenwood Sewer Improvements Project
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 5 SELF INSURANCE - Continued

The claims liability of \$86,764,373 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were:

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current-Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	Balance at Fiscal Year-End (in thousands)
2002-2003	\$95,288	\$30,685	(\$32,171)	\$93,802
2001-2002	\$61,172	\$61,832	(\$27,716)	\$95,288

NOTE 6: NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts were \$665,351 for governmental activities.

NOTE 7: TRANSFERS IN / OUT

Interfund Transfers In/Out transactions are used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital project funds. At June 30, 2003, the District made the following Interfund Transfers In and Out:

FUND	PURPOSE	AMOUNT
SNK	To the SNJ project fund for operations & maintenance	260,031.00
SNJ	From SNK replacement fund for operations & maintenance	(260,031.00)
Net Interfund Transfers		\$ -

County of San Bernardino
County Service Area No. 70 Zone S-7 – Lenwood Sewer Improvements Project
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003

NOTE 8: SUBSEQUENT EVENTS

On October 7, 2003, the Board of Supervisors approved a Resolution authorizing the issuance and awarding of Grant Anticipation Notes from U.S. Bank in an amount not to exceed \$2.5 million for the purpose of repairing and upgrading the High Desert Estates sewer system. The notes will mature 24 months after delivery but are pre-payable without penalty, and the interest rate is 70% of the U.S. prime rate. Estimated time to complete the project is 220 days, which is well before the 24 month maturity date.

Schedule 1

County of San Bernardino
County Service Area No. 70 Zone S-7 – Lenwood Sewer Improvement Project
Schedule of Budget to Actual
For the Fiscal Year Ended June 30, 2003

Sewer	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance, July 1, 2002	\$ -	\$ -	\$ 295,769	\$ (295,769)
Resources (inflows):				
Interest and Rents	-	-	6,960	(6,960)
Grants	-	7,356,633	324,129	7,032,504
Operating Transfers In	-	-	260,031	(260,031)
Other Services	-	-	165	(165)
Other Revenue	-	-	38,328	(38,328)
Amounts available for appropriation	-	7,356,633	925,382	6,431,251
Charges to appropriations (outflows):				
Operating Transfers Out	-	-	260,031	(260,031)
Capital Outlay	-	-	374,507	(374,507)
Total charges to Appropriations	-	-	634,538	(634,538)
Budgetary fund balance, June 30, 2003	\$ -	\$ 7,356,633	\$ 290,844	\$ 7,065,789

AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

October 20, 2003

Tom Sutton, Interim Director
Office of Special Districts
157 W. Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: MANAGEMENT LETTER – CSA 70 – ZONE S-7,
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

In compliance with Section 26909 of the California Government Code, we have audited the general purpose financial statements of the CSA 70 – Zone S-7 for the fiscal year ended June 30, 2003 and have issued our report thereon dated October 1, 2003. In planning and performing our audit of the financial statements, we considered internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. An audit does not include examining the effectiveness of internal controls and does not provide assurance on internal controls. However, we noted certain matters involving internal controls and their operation, which are presented for your consideration.

We do not consider the matter to be a reportable condition under the standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We have not considered internal controls since the date of our report.

These comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve internal controls or result in other operating efficiencies and are summarized as follows.

CURRENT FINDING AND RECOMMENDATIONS

Finding 1:

The District did not prepare a budget for its operating fund for fiscal year 2002/2003 as required by the County Budget Act.

California Government Code Sections 29000-29143 (the County Budget Act) govern County budget matters. The County Budget Act requires special districts under the supervision and control of the County's Board of Supervisors to present, at a minimum, "estimated or actual amounts of...fund balance...external financing sources,...[and] financing uses." The Act also limits "the incurring or paying of obligations to the amounts of the appropriations allowed by the budget."

Budgets help to ensure fiscal responsibility by planning for the coordination of resources and expenditures. They control spending and help the District to better allocate its money to meet its needs.

Recommendations

Ensure that the operating fund is included in the budget for future fiscal years.

Management's Response

The District's operating fund will be included in the budget beginning fiscal year 2004-2005.

We wish to thank the management and staff for their full cooperation during the audit.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

Copies to:

County Administrative Officer
Board of Supervisors
Grand Jury (2)
CSA 70 Zone S-7,
Jeff Rigney, Regional Manager
Special Districts,
Mark Bergthold, Manager, Fiscal Division
Audit file (3)

By: _____
Carol Lombard
Internal Auditor I
Internal Audits Section

Date Report Distributed: _____

LDW:BKR:CL:dlp2

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
LAKE ARROWHEAD FIRE PROTECTION DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
December 17, 2003

**County of San Bernardino Special Districts
Lake Arrowhead Fire Protection District**

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AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

December 17, 2003

PETER HILLS, FIRE CHIEF/FIRE WARDEN

County Fire Department
157 West Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF LAKE ARROWHEAD FIRE PROTECTION DISTRICT FOR THE
FISCAL YEAR ENDED JUNE 30, 2003**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Lake Arrowhead Fire Protection District for the fiscal year ended June 30, 2003.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund, and the remaining aggregate fund information of the County of San Bernardino Special Districts Lake Arrowhead Fire Protection District (the District), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial

statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund, and the remaining aggregate fund information of the District, as of June 30, 2003, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The accompanying budgetary comparison information on page 23 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker
Auditor/Controller-Recorder

By: _____
Barbara K. Redding, CPA, CGFM
Internal Audits Manager

Quarterly Copies to:

County Administrative Office
Board of Supervisors
Grand Jury (2)
Audit File (3)

Date Report Distributed: _____

LDW:BKR:CR:dlp.4

County of San Bernardino
Lake Arrowhead Fire Protection District
Statement of Net Assets
June 30, 2003

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,184,839	\$ 375,163	\$ 1,560,002
Accounts receivable		345,151	345,151
Less allowance for collectible accounts		(232,747)	(232,747)
Taxes receivable	260,924	-	260,924
Interest receivable	2,406	3,351	5,757
Due from other governments	11,204	-	11,204
Total current assets	<u>1,459,373</u>	<u>490,918</u>	<u>1,950,291</u>
Noncurrent assets:			
Capital assets:			
Land	577,500	-	577,500
Improvements to land	132,836	-	132,836
Construction in progress	2,792,091	-	2,792,091
Structures and improvements	4,271,040	-	4,271,040
Equipment and vehicles	1,231,934	254,096	1,486,030
Less accumulated depreciation	(1,908,788)	(124,837)	(2,033,625)
Total noncurrent assets	<u>7,096,613</u>	<u>129,259</u>	<u>7,225,872</u>
Total assets	<u>\$ 8,555,986</u>	<u>\$ 620,177</u>	<u>\$ 9,176,163</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 238,895	\$ -	\$ 238,895
Salaries and benefits payable	10,112	-	10,112
Due to other governments	36,804	1,984	38,788
Total current liabilities	<u>285,811</u>	<u>1,984</u>	<u>287,795</u>
Noncurrent liabilities:			
Employee compensated absences	7,025	-	7,025
Total liabilities	<u>292,836</u>	<u>1,984</u>	<u>294,820</u>
NET ASSETS			
Invested in capital assets	7,096,613	129,259	7,225,872
Unrestricted	1,166,537	488,934	1,655,471
Total net assets	<u>8,263,150</u>	<u>618,193</u>	<u>8,881,343</u>
Total liabilities and net assets	<u>\$ 8,555,986</u>	<u>\$ 620,177</u>	<u>\$ 9,176,163</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Lake Arrowhead Fire Protection District
Statement of Activities
For the Fiscal Year Ended June 30, 2003**

	Governmental Activities	Business-type Activities	Total
EXPENSES			
Salaries and benefits	\$ 4,129,792	\$ 26,241	\$ 4,156,033
Professional Services	-	38,769	38,769
Services and Supplies	537,033	640,816	1,177,849
Depreciation	165,997	42,349	208,346
Total expenses	4,832,822	748,175	5,580,997
PROGRAM REVENUES			
Charges for services	317,082	731,447	1,048,529
Total program revenues	317,082	731,447	1,048,529
Net program (expense) revenue	(4,515,740)	(16,728)	(4,532,468)
GENERAL REVENUES			
Property taxes	4,448,436	-	4,448,436
Special assessments	204	-	204
Other taxes	194,953	-	194,953
Other state aid	101,075	-	101,075
Other government aid	21,067	-	21,067
Interest	24,975	20,409	45,384
Other	12,531	210	12,741
Transfers in (out)	400,000	(400,000)	-
Total general revenues	5,203,241	(379,381)	4,823,860
Change in net assets	687,501	(396,109)	291,392
Net assets - beginning	7,575,649	1,014,302	8,589,951
Net assets - ending	\$ 8,263,150	\$ 618,193	\$ 8,881,343

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Lake Arrowhead Fire Protection District
Balance Sheet
Governmental Funds
June 30, 2003**

	Fire (SRM,CCC,CGA,CPB)	Total Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 1,184,839	\$ 1,184,839
Interest receivable	2,406	2,406
Taxes receivable	260,924	260,924
Due from other governments	11,204	11,204
Total assets	<u>\$ 1,459,373</u>	<u>\$ 1,459,373</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 238,895	\$ 238,895
Salaries and benefits payable	10,112	10,112
Due to other governments	36,804	36,804
Total liabilities	<u>285,811</u>	<u>285,811</u>
Fund balances:		
Reserved - imprest	500	500
Reserved for encumbrances	305,845	305,845
Unreserved	867,217	867,217
Total fund balances	<u>1,173,562</u>	<u>1,173,562</u>
Total liabilities and fund balances	<u>\$ 1,459,373</u>	
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		7,096,613
Long-term liabilities are not due and payable in the current period and, therefore are not reported in the funds.		<u>(7,025)</u>
Net assets of governmental activities		<u>\$ 8,263,150</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Lake Arrowhead Fire Protection District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003**

	Fire (SRM,CCC,CGA,CPB)
REVENUES	
Property Taxes	\$ 4,448,436
Special assessments	204
Other taxes	194,953
Other state aid	101,075
Other government aid	21,067
Interest	24,975
Service fees	317,082
Other	12,531
Total revenues	<u>5,120,323</u>
EXPENDITURES	
Salaries and benefits	4,126,096
Services and supplies	537,033
Capital outlay	1,826,717
Total expenditures	<u>6,489,846</u>
Excess of revenues over (under) expenditures	<u>(1,369,523)</u>
OTHER FINANCING SOURCES (USES)	
Transfers in	1,663,000
Transfers out	<u>(1,263,000)</u>
Total other financing sources (uses)	<u>400,000</u>
Net change in fund balance	(969,523)
Fund balances - beginning	<u>2,143,087</u>
Fund balances - ending	<u>\$ 1,173,564</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Lake Arrowhead Fire Protection District
Reconciliation of the Statement of Revenues, Expenditures,
And Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Fiscal Year Ended June 30, 2003**

Net change in fund balances - total governmental funds	(969,523)
--	-----------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense in the current period.	1,660,720
--	-----------

Some expenditures in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds:

Increase in Employee compensated absences	(3,696)
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Change in net assets of governmental activities	\$ 687,501
---	------------

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Lake Arrowhead Fire Protection District
Statement of Net Assets
Proprietary Funds
June 30, 2003**

	Enterprise Fund Ambulance
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 375,163
Accounts receivable	345,151
Less allowance for uncollectible accounts	(232,747)
Interest receivable	3,351
Total current assets	<u>490,918</u>
Noncurrent assets:	
Capital assets:	
Equipment and vehicles	254,096
Less accumulated depreciation	(124,837)
Total noncurrent assets	<u>129,259</u>
Total assets	<u><u>\$ 620,177</u></u>
LIABILITIES	
Current Liabilities:	
Due to other governments	\$ 1,984
Total liabilities	<u>1,984</u>
NET ASSETS	
Invested in capital assets	129,259
Unrestricted	488,934
Total net assets	<u>618,193</u>
Total liabilities and net assets	<u><u>\$ 620,177</u></u>

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
Lake Arrowhead Fire Protection District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2003

Charges for services	\$ 731,447
Total operating revenues	<u>731,447</u>
OPERATING EXPENSES	
Salaries and benefits	26,241
Professional services	38,769
Services and supplies	640,816
Depreciation	42,349
Total operating expenses	<u>748,175</u>
Operating income (loss)	<u>(16,728)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest revenue	20,409
Other non-operating revenues	210
Total non-operating revenues (expenses)	<u>20,619</u>
Income (loss) before transfers	3,891
Transfers out	<u>(400,000)</u>
Change in net assets	(396,109)
Net assets - beginning	<u>1,014,302</u>
Net assets - ending	<u><u>\$ 618,193</u></u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Lake Arrowhead Fire Protection District
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2003**

	Enterprise Fund Ambulance
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from user charges	\$ 496,180
Payments to employees for services	(26,241)
Payments to suppliers for goods and services	(310,618)
Net cash provided (used) by operating activities	<u>159,321</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers out	(400,000)
Net cash provided (used) by noncapital financing activities	<u>(400,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments related to the acquisition, construction and improvement of capital assets	(91,358)
Net cash provided (used) by capital and related financing activities	<u>(91,358)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Other non-operating revenue	210
Interest revenue	23,499
Net cash provided (used) by investing activities	<u>23,709</u>
Net increase (decrease) in cash and cash equivalents	(308,328)
Cash and cash equivalents - beginning	<u>683,491</u>
Cash and cash equivalents - ending	<u><u>\$ 375,163</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (16,728)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:	
Depreciation expense	42,349
Change in assets and liabilities:	
Receivables, net	131,716
Due to other governments	1,984
Net cash provided (used) by operating activities	<u><u>\$ 159,321</u></u>

**County of San Bernardino
Lake Arrowhead Fire Protection District
Statement of Net Assets
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Lake Arrowhead Fire Protection District (the District) – is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter (the County). The County was established in 1852 as a legal subdivision of the State of California.

The District was established by an act of the Board of Supervisors of the County of San Bernardino (the Board) on January 3, 1939 with the active powers of fire (inspection, suppression, protection, first aid, and rescue). Currently, the governmental reporting entity consists of fire protection and emergency medical services to the community of Lake Arrowhead.

The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and either (i) the County has the ability to impose its will on the organization, or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of the District and are not intended to present the financial position of the County taken as a whole.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments.

**County of San Bernardino
Lake Arrowhead Fire Protection District
Statement of Net Assets
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the District does not have any fiduciary fund types. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of "available" to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

**County of San Bernardino
Lake Arrowhead Fire Protection District
Statement of Net Assets
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

The government reports the following major governmental funds:

The *special revenue fund* labeled "Fire" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's enterprise fund is charges to customers for ambulance services. Operating expenses for enterprise funds include the cost of salaries and benefits, services and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

The government reports the following major proprietary funds:

The *enterprise fund* labeled "Ambulance" accounts for the emergency transport activities of the District. The District operates an ambulance under the administration of the San Bernardino County Fire Department.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**County of San Bernardino
Lake Arrowhead Fire Protection District
Statement of Net Assets
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

Receivables and payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectibles when applicable.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year.

**County of San Bernardino
Lake Arrowhead Fire Protection District
Statement of Net Assets
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset life is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Improvements to land	20 - 45
Structures & improvements	10 - 45
Equipment and vehicles	6 - 15

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Employee Compensated Absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability. The District is not obligated to pay for unused sick leave if an employee terminates or retires.

Compensated absences activity for the year ended June 30, 2003 was as follows:

Beginning Balance	Additions	Deletions	Ending Balance
\$ 4,058	\$ 20,478	\$ 17,511	\$ 7,025

**County of San Bernardino
Lake Arrowhead Fire Protection District
Statement of Net Assets
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$1,660,720 difference are as follows:

Capital outlay	\$ 1,826,717
Depreciation expense	<u>(165,997)</u>
Net adjustment to decrease <i>net change in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 1,660,720</u>

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head.

Any deficiency of budgeted revenues and other financing resources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**County of San Bernardino
Lake Arrowhead Fire Protection District
Statement of Net Assets
June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at the fair value as of June 30, 2003.

NOTE 3: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of the District as a whole, and their original costs are expensed annually over their useful lives. Capital asset activity for governmental and business-type activities for the year ended June 30, 2003 follows. All governmental assets and depreciation are from the fire protection activity.

County of San Bernardino
Lake Arrowhead Fire Protection District
Statement of Net Assets
June 30, 2003

Governmental activities

	Balance at July 1, 2002	Additions	Disposals	Balance at June 30, 2003
Capital assets not being depreciated:				
Land	\$ 577,500	\$ -	\$ -	\$ 577,500
Construction in progress	1,029,331	1,762,760	-	2,792,091
Total capital assets not being depreciated	1,606,831	1,762,760	-	3,369,591
Capital assets being depreciated:				
Improvements to land	132,836	-	-	132,836
Structures and improvements	4,271,040	-	-	4,271,040
Equipment	66,142	45,317	9,698	101,761
Vehicles	1,103,774	26,399	-	1,130,173
Total capital assets being depreciated	5,573,792	71,716	9,698	5,635,810
Less accumulated depreciation for:				
Improvements to land	60,493	3,355	-	63,848
Structures and improvements	814,603	88,249	-	902,852
Equipment	20,980	7,750	1,212	27,518
Vehicles	847,927	66,643	-	914,570
Total accumulated depreciation	1,744,003	165,997	1,212	1,908,788
Total capital assets being depreciated, net	3,829,789	(94,281)	8,486	3,727,022
Total net capital assets	\$ 5,436,620	\$ 1,668,479	\$ 8,486	\$ 7,096,613

Business-type activities

	Balance at July 1, 2002	Additions	Disposals	Balance at June 30, 2003
Capital assets being depreciated:				
Vehicles	\$ 259,213	\$ 91,358	\$ 96,475	\$ 254,096
Total capital assets being depreciated	259,213	91,358	96,475	254,096
Less accumulated depreciation for:				
Vehicles	178,963	42,349	96,475	124,837
Total accumulated depreciation	178,963	42,349	96,475	124,837
Total capital assets being depreciated, net	80,250	49,009	-	129,259
Total net capital assets	\$ 80,250	\$ 49,009	\$ -	\$ 129,259

**County of San Bernardino
Lake Arrowhead Fire Protection District
Statement of Net Assets
June 30, 2003**

NOTE 3: CAPITAL ASSETS – *Continued*

Construction in progress represents the following projects:

Project Title	Budget	YTD Expenses	Projected Completion Date
Fire Station # 94	\$8,153,743	<u>\$2,792,091</u>	2004
Total		<u><u>\$2,792,091</u></u>	

NOTE 4: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which includes the District), the organizations listed below were added later:

- City of Big Bear Lake
- City of Chino Hills
- California State Association of Counties
- San Bernardino County Law Library
- Crest Forest Fire Protection District
- Mojave Desert Air Quality Management District (MDAQMD)
- South Coast Air Quality Management District (AQMD)
- Local Agency Formation Commission (LAFCO)

The District and others covered under the plan are collectively referred to as the "Participating Members." The plan is governed by the San Bernardino County Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, San Bernardino, California 92415-0014.

Funding Policy

Participating members are required by statute (Sections 31621, 31521.2 and 31639.25 of the California Government Code) to contribute a percentage of covered

**County of San Bernardino
Lake Arrowhead Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 5: RETIREMENT PLAN - *Continued*

salary based on certain actuarial assumptions and their age at entry into the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the District paid \$421,338 to the plan as the employer's share. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

NOTE 6: FEDERAL AND STATE GRANTS

From time to time the District may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

NOTE 7: SELF INSURANCE

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee

**County of San Bernardino
Lake Arrowhead Fire Protection District
Statement of Net Assets
June 30, 2003**

NOTE 7: SELF INSURANCE - Continued

dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, worker's compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investments in the agreements totaled \$41,124,812 at June 30, 2003.

The claims liability of \$93,802,000 reported at June 30, 2003 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2002 and 2003 were (in thousands):

Fiscal Year	Beginning of Fiscal Year Liability (in thousands)	Current Year Claims and Changes in Estimates (in thousands)	Claims Payments (in thousands)	Balance at Fiscal Year-end (in thousands)
2002-03	\$ 95,288	\$ 30,685	\$ (32,171)	\$ 93,802
2001-02	\$ 61,172	\$ 61,832	\$ (27,716)	\$ 95,288

NOTE 8: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIII B to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

**County of San Bernardino
Lake Arrowhead Fire Protection District
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 9: NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts were \$8,263,150 for governmental activities and \$618,193 for business-type activities.

	Governmental Activities	Business- Type Activities
Invested in Capital Assets, Net of Related Debt: June 30, 2003		
Net Land, Improvements to Land, Infrastructure, Construction in Progress, Utility Plant in Service, Structures and Improvements, and Equipment & Vehicles	\$ 7,096,613	\$ 129,259
Unrestricted	1,166,537	488,934
Total Net Assets	\$ 8,263,150	\$ 618,193

NOTE 10: TRANSFERS IN (OUT)

Interfund Transfers In(Out) transactions are used to reimburse an operating fund and transfer cash between operating funds and capital project funds. At June 30, 2003, the District made the following Interfund Transfers In and Out:

Fund	Purpose	Amount
SRM	To CCC for fire new fire station	\$ 1,220,000
SRM	To CPB for new heating and air conditioning	43,000
EGM	To SRM for share of ambulance costs	400,000
CCC	From SRM for new fire station	(1,220,000)
CPB	From SRM for new heating and air conditioning	(43,000)
SRM	From EGM for share of ambulance costs	(400,000)
	Net interfund transfers	<u>\$ -</u>

**County of San Bernardino
Lake Arrowhead Fire Protection District
Required Supplementary Information
Budgetary Comparison Schedule
For the Fiscal Year Ended June 30, 2003**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive (Negative)
Fire				
Budgetary fund balance July 1, 2002	\$ 1,440,155	\$ 876,423	\$ 2,143,087	\$ 1,266,664
Resources (inflows):				
Property taxes	4,221,514	4,551,829	4,448,436	(103,393)
Other taxes	-	-	194,953	194,953
Special assessments	-	-	204	204
Interest and rents	11,000	12,000	24,975	12,975
Other state aid	-	-	101,075	101,075
Other governmental aid	-	-	21,067	21,067
Charges for services	353,486	390,465	317,082	(73,383)
Operating transfer in	2,437,155	1,983,000	1,983,000	-
Other revenue	-	-	12,531	12,531
Amount available for appropriation	8,463,310	7,813,717	9,246,410	1,432,693
Charges to appropriations (outflows):				
Salaries and benefits	3,992,569	4,127,300	4,126,096	1,204
Services and supplies	904,706	708,880	704,062	4,818
Operating transfers out	795,672	1,415,971	1,415,971	-
Capital outlay:				
Structures and improvements	2,037,155	2,357,155	1,762,760	594,395
Equipment and vehicles	69,200	88,000	63,957	24,043
Reserves and contingencies	664,008	210,566	-	210,566
Total charges to appropriations	8,463,310	8,907,872	8,072,846	835,026
Budgetary fund balance June 30, 2003	\$ -	\$ (1,094,155)	\$ 1,173,564	\$ 2,267,719

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

December 17, 2003

Peter Hills, Fire Chief/Fire Warden
San Bernardino County Fire Department
157 W. Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**Subject: MANAGEMENT LETTER – LAKE ARROWHEAD FIRE PROTECTION
DISTRICT- FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of the Lake Arrowhead Fire Protection District (the District) for the fiscal year ended June 30, 2003.

Auditor's Report

We have audited the accompanying balance sheet of the District as of June 30, 2003, and the related financial statements for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. As part of our audit, we made a study of the District's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. The purpose of our study and evaluation was to determine the nature, timing and extent of the auditing procedures necessary for expressing an opinion on the financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole.

Nature of Internal Control

The management of the District is responsible for establishing and maintaining the system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system of internal control are to provide

management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation, made for the limited purpose described in the first paragraph, would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting controls of the District. However, our study and evaluation disclosed no condition that we believe to be a material weakness.

This report is intended solely for the use of management and the Board of Supervisors and should not be used for any other purpose.

FINDINGS AND RECOMMENDATIONS

Finding One: Several weakness were noted the in the cash fund's internal controls.

Petty Cash Fund records should be kept together for a proper accounting and reconciled monthly. Also, monies deposited into a clearing account should be deposited with the Treasurer as soon as possible. However, on the day of our field visit, the Petty Cash Fund was short \$38.42 because some of the receipts or vouchers for reimbursement had not been posted nor stored with the fund's records. In addition, access to the petty cash fund was not readily available to staff because the fund custodian was out on leave while no provision was made for another employee to serve as back up. During a monthly reconciliation, the shortage would have been discovered and resolved. Also, monies deposited into the clearing account on June 20, 2003 had not been transferred to the Treasurer as of July 25, 2003.

When cash fund records are not stored in one location nor reconciled timely, monies and receipts can become lost or stolen. Also for proper accountability, revenue and assets should be recognized as soon they are collected and/or received respectively.

Recommendation:

Establish back up for the petty cash fund custodian's duties so that during an absence, staff will have access to the monies and an accounting for the fund can be made upon demand from the Auditor's Office. To provide an accounting for the fund, keep all cash, receipts and vouchers together. The fund should also be reconciled monthly by an employee other than the fund custodian and of a higher ranking job code. Also, transfer monies deposited into the clearing account to the Treasurer at least weekly.

Auditee's Response:

The District will implement the following procedures:

1. A back-up person for the petty cash fund custodian will be designated and trained so that during an absence, staff will have access to the monies and an accounting for the fund can be made.
2. All cash, receipts, and vouchers will be kept together.
3. The fund will be reconciled monthly by an employee other than the fund custodian and of a higher-ranking job code.
4. Monies in the clearing account will be transferred to the County Treasurer at least weekly.

We would like to express our appreciation for the cooperation and assistance provided to the auditor during our field visit.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By: _____
Barbara K. Redding, CPA, CGFM
Internal Audits Manager

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COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
YUCCA VALLEY FIRE PROTECTION DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Prepared by:
Internal Audits Section
Office of the Auditor/Controller-Recorder
December 16, 2003

**County of San Bernardino Special Districts
Yucca Valley Fire Protection District**

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

December 16, 2003

Peter Hills, Fire Chief/Fire Warden
County Fire Department
157 West Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF YUCCA VALLEY FIRE PROTECTION DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Yucca Valley Fire Protection District for the fiscal year ended June 30, 2003.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the remaining aggregate fund information of the County of San Bernardino Special District's Yucca Valley Fire Protection District (the District), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2003, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and

significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the remaining aggregate fund information of the District, as of June 30, 2003, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The accompanying budgetary comparison information on page 23 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker
Auditor/Controller-Recorder

By: _____
Barbara K. Redding, CPA, CGFM
Internal Audits Manager

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County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Statement of Net Assets
June 30, 2003

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 21,598	\$ 33,741	\$ 55,339
Accounts receivable	-	574,911	574,911
Less allowance for uncollectible accounts	-	(469,685)	(469,685)
Taxes receivable	145,098	-	145,098
Interest receivable	22	682	704
Total current assets	<u>166,718</u>	<u>139,649</u>	<u>306,367</u>
Noncurrent assets:			
Capital assets:			
Land	8,271	-	8,271
Improvements to land	8,359	-	8,359
Structures and improvements	222,880	-	222,880
Equipment and vehicles	1,396,888	296,627	1,693,515
Less accumulated depreciation	<u>(1,211,474)</u>	<u>(186,819)</u>	<u>(1,398,293)</u>
Total noncurrent assets	<u>424,924</u>	<u>109,808</u>	<u>534,732</u>
Total assets	<u>\$ 591,642</u>	<u>\$ 249,457</u>	<u>\$ 841,099</u>
LIABILITIES			
Current liabilities:			
Salaries and benefits payable	\$ 7,382	\$ -	\$ 7,382
Due to other governments	3,391	449	3,840
Total current liabilities	<u>10,773</u>	<u>449</u>	<u>11,222</u>
Noncurrent liabilities:			
Employee compensated absences	2,195	-	2,195
Total noncurrent liabilities	<u>2,195</u>	<u>-</u>	<u>2,195</u>
Total liabilities	<u>12,968</u>	<u>449</u>	<u>13,417</u>
NET ASSETS			
Invested in capital assets	424,924	109,808	534,732
Unrestricted	<u>153,750</u>	<u>139,200</u>	<u>292,950</u>
Total net assets	<u>578,674</u>	<u>249,008</u>	<u>827,682</u>
Total liabilities and net assets	<u>\$ 591,642</u>	<u>\$ 249,457</u>	<u>\$ 841,099</u>

**County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Statement of Activities
For the Fiscal Year Ended June 30, 2003**

	Governmental Activities	Business-Type Activities	Total
EXPENSES			
Salaries and benefits	\$ 2,816,735	\$ 34,866	\$ 2,851,601
Professional services	-	54,241	54,241
Services and supplies	396,838	818,543	1,215,381
Depreciation	95,542	35,413	130,955
Total expenses	3,309,115	943,063	4,252,178
PROGRAM REVENUES			
Charges for services	-	1,360,242	1,360,242
Total program revenues	-	1,360,242	1,360,242
Net program (expense) revenue	(3,309,115)	417,179	(2,891,936)
GENERAL REVENUES			
Property taxes	2,485,917	-	2,485,917
Other taxes	122,471	-	122,471
Interest	118	3,558	3,676
Rents and concessions	37,041	-	37,041
State aid	15,419	-	15,419
Federal aid	12,942	-	12,942
Other	20,832	-	20,832
Transfers in (out)	600,000	(600,000)	-
Total general revenues	3,294,740	(596,442)	2,698,298
Change in net assets	(14,375)	(179,263)	(193,638)
Net assets - beginning	593,049	428,271	1,021,320
Net assets - ending	\$ 578,674	\$ 249,008	\$ 827,682

**County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Balance Sheet
Governmental Funds
June 30, 2003**

	Fire (SRS,CKA)	Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 21,598	\$ 21,598
Interest receivable	22	22
Taxes receivable	145,098	145,098
	<hr/>	<hr/>
Total assets	\$ 166,718	\$ 166,718
	<hr/>	<hr/>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Salaries and benefits payable	\$ 7,382	\$ 7,382
Due to other governments	3,391	3,391
Total liabilities	10,773	10,773
	<hr/>	<hr/>
Fund balances:		
Unreserved	155,945	155,945
Total fund balances	155,945	155,945
	<hr/>	<hr/>
Total liabilities and fund balances	\$ 166,718	
	<hr/>	
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		424,924
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		<hr/> (2,195)
Net assets of governmental funds		\$ 578,674
		<hr/>

**County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003**

	<u>(SRS, CKA)</u>
REVENUES	
Property taxes	\$ 2,485,917
Other taxes	122,471
Interest	118
Rents and concessions	37,041
State aid	15,419
Federal aid	12,942
Other	20,832
Total revenues	<u>2,694,740</u>
EXPENDITURES	
Salaries and benefits	2,816,236
Services and supplies	396,838
Total expenditures	<u>3,213,074</u>
Excess of revenues over (under) expenditures	(518,334)
OTHER FINANCING SOURCES (USES)	
Transfers in	600,000
Total other financing sources (uses)	<u>600,000</u>
Net change in fund balances	81,666
Fund balances, beginning	<u>74,279</u>
Fund balances, ending	<u><u>\$ 155,945</u></u>

**County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Fiscal Year Ended June 30, 2003**

Net change in fund balances - total governmental funds	\$ 81,666
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.	(95,542)
Some expenditures in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Decrease in compensated absences payable	<u>(499)</u>
Change in net assets of governmental activities	<u><u>\$ (14,375)</u></u>

**County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Statement of Net Assets
Propriety Fund
June 30, 2003**

	<u>Enterprise Fund</u>
	<u>Ambulance</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 33,741
Accounts receivable	574,911
Less allowance for uncollectible accounts	(469,685)
Interest receivable	682
Total current assets	<u>139,649</u>
Noncurrent assets:	
Capital assets:	
Equipment and vehicles	296,627
Less accumulated depreciation	(186,819)
Total noncurrent assets	<u>109,808</u>
Total assets	<u><u>\$ 249,457</u></u>
LIABILITIES	
Current liabilities:	
Due to other governments	\$ 449
Total liabilities	<u>449</u>
NET ASSETS	
Invested in capital assets	109,808
Unrestricted	139,200
Total net assets	<u>249,008</u>
Total liabilities and net assets	<u><u>\$ 249,457</u></u>

**County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended June 30, 2003**

	<u>Enterprise Fund</u> <u>Ambulance</u>
OPERATING REVENUES	
Charges for services	\$ 1,360,242
Total operating revenues	<u>1,360,242</u>
OPERATING EXPENSES	
Salaries and benefits	34,866
Professional services	54,241
Services and supplies	818,543
Depreciation	35,413
Total operating expenses	<u>943,063</u>
Operating income (loss)	<u>417,179</u>
NONOPERATING REVENUES (EXPENSES)	
Interest revenue	3,558
Total nonoperating revenues (expenses)	<u>3,558</u>
Income before contributions and transfers	420,737
Transfers Out	<u>(600,000)</u>
Change in net assets	(179,263)
Net assets - beginning	<u>428,271</u>
Net assets - ending	<u><u>\$ 249,008</u></u>

**County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2003**

	Enterprise Fund Ambulance
CASH FLOWS FROM OPERATING ACTIVITIES	
Received from user charges	\$ 684,166
Payments to employees for services	(34,866)
Payments to suppliers for goods and services	(26,459)
Payments for professional services	(54,241)
Net cash provided by operating activities	<u>568,600</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers out	<u>(600,000)</u>
Net cash used by noncapital financing activities	<u>(600,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Payments related to the acquisition, construcion and improvent of capital assets	<u>(50,318)</u>
Net cash provided (used) by capital and related financing activities	<u>(50,318)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest revenue	<u>4,909</u>
Net cash provided (used) by investing activities	<u>4,909</u>
Net increase (decrease) in cash and cash equivalents	(76,809)
Cash and cash equivalents - beginning	<u>110,550</u>
Cash and cash equivalents - ending	<u><u>\$ 33,741</u></u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income (loss)	\$ 417,179
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	35,413
Change in assets and liabilities:	
Decrease in receivables, net	115,559
Increase in due to other governments	449
Net cash provided (used) by operating activities	<u><u>\$ 568,600</u></u>

**County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Yucca Valley Fire Protection District (the District) – is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter (the County). The County was established in 1852 as a legal subdivision of the State of California.

The District was established by an act of the Board of Supervisors of the County of San Bernardino on July 1951 with the active powers of fire (suppression, prevention, first aid, and rescue). Currently, the governmental reporting entity consists of fire protection and emergency medical services to the community of Yucca Valley.

The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (i) either the County's ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of the Yucca Valley Fire Protection District and are not intended to present the financial position of the County taken as a whole.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

**County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental *fund financial statements* are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. However, for revenue derived from voluntary non-exchange transactions, such as taxes and federal and state grants, the County expanded its definition of "available" to 9 months. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *special revenue fund* labeled "Fire Protection" is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Fire Protection District's enterprise fund is charges to customers for ambulance services. Operating expenses for enterprise funds include the cost of salaries and benefits, services and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

The government reports the following major proprietary fund:

The *enterprise fund* labeled "Ambulance" accounts for the transport activities of the District. The Fire Protection District operates the ambulance activities under the administration of San Bernardino County Fire Department

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds and trust funds.

The government reports the following major capital project fund:

The capital project fund labeled "Fire Protection - CKA" is used to account for the fire station remodel. Governmental resources are used to finance this project.

Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." All accounts receivable are shown net of an allowance for uncollectible accounts when applicable.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Fund equity

In the fund financial statements, governmental funds may report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

**County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Improvements to land	40
Structures & improvements	5 – 45
Equipment and vehicles	6 – 15

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a current liability. The District is not obligated to pay for unused sick leave if an employee terminates or retires.

Compensated absences activity for the year ended June 30, 2003 was as follows:

Beginning Balance	Additions	Deletions	Ending Balance
\$ 1,696	978	479	\$ 2,195

**County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Reconciliation of government-wide and fund financial statements

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds and changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of the difference are as follows:

Depreciation expense	\$ <u>(95,542)</u>
Net adjustment to decrease <i>net change in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$ <u>95,542</u>

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 29000 - 29143 of the Government Code of the State of California, commonly known as the County Budget Act, the District prepares and adopts a budget on or before August 30 for each fiscal year.

Budgets are prepared on the modified accrual basis of accounting. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Board. Transfers at the sub-object level or cost center level may be done at the discretion of the Special District's Administration Department head. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

**County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the District's account based upon the District's average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

**County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2003**

NOTE 3: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of Yucca Valley Fire Protection District as a whole, and their original costs are expensed annually over their useful lives. Capital asset activity for governmental and business-type activities for the year ended June 30, 2003 follows. All governmental assets and depreciation are from the fire protection activity.

Governmental Activities

	Balance at June 30, 2002	Additions	Disposals	Balance at June 30, 2003
Capital assets not being depreciated:				
Land	\$ 8,271			\$ 8,271
Construction in progress	88,220		88,220	-
Total capital assets not being depreciated	96,491		88,220	8,271
Capital assets being depreciated:				
Improvements to land	8,359			8,359
Structures and improvements	134,660	88,220		222,880
Equipment	64,356			64,356
Vehicles	1,355,640		23,108	1,332,532
Total capital assets being depreciated	1,563,015	88,220	23,108	1,628,127
Less accumulated depreciation for:				
Improvements to land	4,214	209		4,423
Structures and improvements	9,226	4,953		14,179
Equipment	46,135	3,432		49,567
Vehicles	1,079,465	86,948	23,108	1,143,305
Total accumulated depreciation	1,139,040	95,542	23,108	1,211,474
Total capital assets being depreciated, net	423,975	(7,322)	-	416,653
Total net capital assets	\$ 520,466	\$ (7,322)	\$ 88,220	\$ 424,924

**County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2003**

NOTE 3: CAPITAL ASSETS – Continued

Business-type activities

	Balance at June 30, 2002	Additions	Disposals	Balance at June 30, 2003
Capital assets being depreciated:				
Equipment	\$ 37,991	62,520	37,991	\$ 62,520
Vehicles	234,107			234,107
Total capital assets being depreciated	272,098	62,520	37,991	296,627
Less accumulated depreciation for:				
Equipment	25,355	5,121	25,787	4,689
Vehicles	151,838	30,292		182,130
Total accumulated depreciation	177,193	35,413	25,787	186,819
Total capital assets being depreciated, net	94,905	27,107	12,204	109,808
Total net capital assets	\$ 94,905	\$ 27,107	\$ 12,204	\$ 109,808

NOTE 4: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). The plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino (which includes the District), the organizations listed below were added later:

- City of Big Bear Lake
- City of Chino Hills
- California State Association of Counties
- San Bernardino County Law Library
- Crest Forest Fire Protection District
- Mojave Desert Air Quality Management District
- South Coast Air Quality Management District
- Local Agency Formation Commission

The District and others covered under the plan are collectively referred to as the "Participating Members." The plan is governed by the San Bernardino County Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand alone financial report which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, San Bernardino, California 92415-0014.

**County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2003**

NOTE 4: RETIREMENT PLAN -Continued

Funding Policy

Participating members are required by statute (Sections 31621, 31521.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry into the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the County pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the District paid \$421,338 to the plan as the employer's share. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

NOTE 5: FEDERAL AND STATE GRANTS

From time to time the District may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

NOTE 6: SELF INSURANCE

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability and workers' compensation claims. Public liability claims are self-insured for up to \$250,000 per occurrence. Excess insurance coverage up to \$30 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II.

Workers compensation claims are self-insured up to \$1 million per occurrence and covered by an independent carrier for the balance up to \$2 million for employer's liability and for workers compensation statutory liability. Property damage claims are self-insured on an occurrence basis up to \$25,000 and insured by the CSAC EIA Property Programs I and II.

The County supplements its self-insurance for medical malpractice claims with an insurance policy that provides annual coverage on an occurrence basis with deductibles of \$1,000,000 for each claim and \$5,000,000 for total annual claims. Maximum coverage

**County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2003**

NOTE 6: SELF INSURANCE – *Continued*

under the policy is \$20 million per occurrence with an additional \$30 million in limits provided by the CSAC EIA General Liability II Program.

The activities related to such programs are accounted for in the Risk Management Fund (an Internal Service Fund) except for unemployment insurance and employee dental insurance which are accounted for in the General Fund. The liabilities included in the Division are based upon the results of actuarial studies and include amounts for claims incurred but not reported and allocated loss adjustment expense. The liabilities for these claims are reported using a discounted rate of 5.00%.

The County has an investment agreement with National Westminster Bank to finance the self-insured general liability, automobile liability, worker's compensation and medical malpractice programs. Quarterly disbursements are received by the County for fund reserves and payment of claims. The County's investments in the agreements totaled \$41,124,812 at June 30, 2003.

NOTE 7: PROPOSITION 111 APPROPRIATION LIMITS

Proposition 111, which added Article XIIIB to the State Constitution, established limits on budget appropriations in order to restrict government spending. We have reviewed the proceeds of taxes received by the District during the 2002-2003 fiscal year, and have found the revenue to be within the guidelines established by Proposition 111.

NOTE 8: NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts at June 30, 2003 were as follows:

	Governmental Activities	Business- Type Activities
Invested in capital assets, net of related debt:		
Net land, improvements to land, infrastructure, construction in progress, utility plant in service, structures and improvements, and equipment and vehicles	\$ 424,924	\$ 109,808
Unrestricted	153,750	139,200
Total net assets	\$ 578,674	\$ 249,008

**County of San Bernardino Special Districts
Yucca Valley Fire Protection District
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2003**

NOTE 9: TRANSFERS IN/OUT

Interfund Transfers In/Out transactions are used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital project funds. At June 30, 2003, the District made the following Interfund Transfers In and Out:

Fund	Purpose	Amount
SRS	From EGP for share of ambulance costs	\$ 600,000
EGP	To SRS for share of ambulance costs	(600,000)
Net interfund transfers		<u><u>\$ -</u></u>

Required Supplementary Information
County of San Bernardino
Yucca Valley Fire Protection District
Budgetary Comparison Schedule – Special Revenue Funds
For the Fiscal Year Ended June 30, 2003

	Original	Final	Budgetary Basis	Positive (Negative)
Budgetary fund balance July 1, 2002	\$ 263,128	\$ 67,023	\$ 74,279	\$ 7,256
Resources (Inflows):				
Property taxes	2,496,060	2,549,830	2,485,917	(63,913)
Other taxes			122,471	122,471
Interest and rents	37,000	35,563	37,159	1,596
State aid			15,419	15,419
Federal aid			12,942	12,942
Other			20,832	20,832
Operating transfer in	1,061,302	862,344	862,344	-
Amount available for appropriation	<u>\$ 3,857,490</u>	<u>\$ 3,514,760</u>	<u>\$ 3,631,363</u>	<u>\$ 116,603</u>
Charges to appropriations (Outflows)				
Salaries and benefits	\$ 3,147,888	\$ 3,085,138	\$ 3,078,580	\$ 6,558
Services and supplies	563,284	409,628	376,844	32,784
Other charges	8,475	10,350	10,350	-
Capital outlay				-
Operating transfer out	10,000	9,644	9,644	-
Reserves and contingencies	127,843			-
Total charges to appropriations	<u>3,857,490</u>	<u>3,514,760</u>	<u>3,475,418</u>	<u>39,342</u>
Budgetary fund balance June 30, 2003	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 155,945</u>	<u>\$ 155,945</u>

COUNTY OF SAN BERNARDINO
CALIFORNIA
LOCAL AGENCY FORMATION COMMISSION
AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
October 28, 2003

Local Agency Formation Commission For San Bernardino County

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AUDITOR/CONTROLLER-RECORDER COUNTY CLERK



COUNTY OF SAN BERNARDINO

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San Bernardino, CA 92415-0022 • (909) 387-8306 • Fax (909) 386-8940

LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

October 28, 2003

Gerald W. Smith, Chairman
Local Agency Formation Commission
175 West Fifth Street, Second Floor
San Bernardino, CA 92415-0490

**SUBJECT: AUDIT OF LOCAL AGENCY FORMATION COMMISSION FOR
 SAN BERNARDINO COUNTY FOR THE FISCAL YEAR ENDED
 JUNE 30, 2003**

Introductory Remarks

Per your request, we have completed an audit of Local Agency Formation Commission for San Bernardino County for the fiscal year ended June 30, 2003.

Auditor's Report

We have audited the accompanying financial statements of the governmental activities of the Local Agency Formation Commission for San Bernardino County (the "Commission"), an independent state mandated agency for the County of San Bernardino, California, as of and for the year ended June 30, 2003 as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Commission, as of June 30, 2003, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying budgetary comparison information on page 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Commission has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Larry Walker

Auditor/Controller-Recorder

By: _____
Barbara K. Redding, CPA, CGFM
Manager, Internal Audit Section

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**Local Agency Formation Commission
For San Bernardino County
Statement of Net Assets
June 30, 2003**

	Governmental Activities
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 90,676
Petty cash - imprest funds	250
Interest receivable	866
Accounts receivable	10,522
Due from other governments	<u>3,167</u>
Total current assets	<u>105,481</u>
Noncurrent assets:	
Capital assets:	
Equipment	32,240
Less accumulated depreciation	<u>(10,342)</u>
Total noncurrent assets	<u>21,898</u>
Total assets	<u><u>\$ 127,379</u></u>
LIABILITIES	
Current liabilities:	
Salaries and benefits payable	\$ 11,870
Accounts payable	10,008
Deferred Revenue	<u>25,311</u>
Total current liabilities	47,189
Noncurrent liabilities:	
Employee compensated absences	<u>17,947</u>
Total noncurrent liabilities	<u>17,947</u>
Total liabilities	<u>65,136</u>
NET ASSETS	
Invested in capital assets	21,898
Unrestricted	<u>40,345</u>
Total net assets	<u>62,243</u>
Total liabilities and net assets	<u><u>\$ 127,379</u></u>

The notes to the financial statements are an integral part of this statement.

**Local Agency Formation Commission
For San Bernardino County
Statement of Activities
For the Fiscal Year Ended June 30, 2003**

EXPENSES	<u>Governmental Activities</u>
Salaries and benefits	\$ 395,583
Services and supplies	228,347
Depreciation	<u>4,498</u>
Total expenses	<u>628,428</u>
PROGRAM REVENUES	
Charges for services	98,985
Other governmental aid	<u>510,025</u>
Total program revenues	<u>609,010</u>
Net program (expense) revenue	<u>(19,418)</u>
GENERAL REVENUES	
Interest	<u>8,881</u>
Total general revenues	<u>8,881</u>
Change in net assets	(10,537)
Net assets - beginning	<u>72,780</u>
Net assets - ending	<u><u>\$ 62,243</u></u>

The notes to the financial statements are an integral part of this statement.

**Local Agency Formation Commission
For San Bernardino County
Balance Sheet
Governmental Funds
June 30, 2003**

ASSETS	<u>General Fund</u>
Cash and cash equivalents	\$ 90,676
Petty cash - imprest funds	250
Interest receivable	866
Accounts receivable	10,522
Due from other governments	<u>3,167</u>
Total assets	<u><u>\$ 105,481</u></u>
 LIABILITIES AND FUND BALANCES	
Liabilities:	
Salaries and benefits payable	\$ 11,870
Accounts payable	10,008
Deferred Revenue	<u>25,311</u>
Total liabilities	<u>47,189</u>
Fund balances:	
Unreserved	<u>58,292</u>
Total fund balances	<u>58,292</u>
Total liabilities and fund balances	<u><u>\$ 105,481</u></u>
 Reconciliation of the balance sheet of governmental funds to the statement of net assets	
Total fund balances - governmental funds	\$ 58,292
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	21,898
Noncurrent employee compensated absences do not constitute an outflow of current financial resources and, therefore, are not reported in the funds.	<u>(17,947)</u>
Net assets of governmental activities	<u><u>\$ 62,243</u></u>

The notes to the financial statements are an integral part of this statement.

**Local Agency Formation Commission
For San Bernardino County
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2003**

	<u>General Fund</u>
REVENUES	
Charges for services	\$ 98,985
Interest	8,881
Other governmental aid	<u>510,025</u>
Total revenues	<u>617,891</u>
EXPENDITURES	
Salaries and benefits	377,636
Services and supplies	228,347
Capital outlay	<u>11,440</u>
Total expenditures	<u>617,423</u>
Excess of revenues over (under) expenditures	<u>468</u>
Net change in fund balances	468
Fund balances - beginning	<u>57,824</u>
Fund balances - ending	<u><u>\$ 58,292</u></u>

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Net change in fund balances - total governmental funds	\$ 468
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	6,942
Expenses in the statement of activities that do not require the use of current financial resources are not reported as expenditures in the governmental funds.	<u>(17,947)</u>
Change in net assets of governmental activities	<u><u>\$ (10,537)</u></u>

The notes to the financial statements are an integral part of this statement.

**Local Agency Formation Commission
For San Bernardino County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Local Agency Formation Commission for San Bernardino County (the "Commission") is a State mandated agency that was created in 1963. The Commission is responsible for working closely with citizens, the County of San Bernardino, cities, and special districts on a variety of issues concerning jurisdictional changes.

The Commission consists of seven voting members as follows:

- Two members of city councils,
- Two members of the Board of Supervisors of the County of San Bernardino,
- Two members of independent special districts, and
- A member representing the general public.

As of January 2001, the Commission's powers, responsibilities, and authority are all defined and described in the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH).

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the reporting entity. As a general rule, the effect of any interfund activity is eliminated from the government-wide financial statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from any business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Currently, the Commission does not have any proprietary or fiduciary fund types and operates under a single-program governmental fund.

**Local Agency Formation Commission
For San Bernardino County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Commission reports the following major governmental fund:

The general fund is the Commission's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Commission has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, and then unrestricted resources as they are needed.

Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**Local Agency Formation Commission
For San Bernardino County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

Accounts receivable

All accounts receivable are shown net of an allowance for uncollectibles when applicable.

Capital assets

Capital assets, include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the Commission as assets with an initial, individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend asset life is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Equipment of the Commission is depreciated using the straight-line method over a 5 to 7 year estimated useful life.

Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Employee Compensated Absences

Liabilities for vacation, holidays, sick pay and compensatory time are accrued when incurred in the government-wide financial statements. Upon retirement or termination, an employee is compensated for 100% of unused accrued vacation and holiday time. Those with ten or more years of continuous service receive 30% to 50% of their accumulated sick leave. In accordance with GASB Interpretation Number 6, a liability for accrued leave is reported in the governmental fund financial statements only if it has matured. A matured liability may result from employees who terminate prior to year-end and are paid for their leave subsequent to year-end.

**Local Agency Formation Commission
For San Bernardino County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

Compensated absences activity for the year ended June 30, 2003 was as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
\$ 27,252	\$ 56,268	\$ 65,574	\$ 17,946

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Reconciliation of government-wide and fund financial statements

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$6,942 difference are as follows:

Capital outlays	\$ 11,440
Depreciation expense	<u>(4,498)</u>
	<u>\$ 6,942</u>

Stewardship, compliance and accountability

A. Budgetary information

In accordance with provisions of Section 56381 of the Government Code of the State of California, commonly known as the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (CKH), the Commission shall adopt a proposed budget by May 1 and a final budget by June 15 of each fiscal year.

**Local Agency Formation Commission
For San Bernardino County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *continued*

Budgets are prepared on the modified accrual basis of accounting. After adoption of a final budget, the County of San Bernardino auditor shall apportion one-third of net operating expenses of the Commission to each of the following: the county, cities, and independent special districts. The legal level of budgetary control is the object level and the sub-object level for capital assets within each fund.

Amendments or transfers of appropriations between funds or departments must be approved by the Commission. Any deficiency of budgeted revenues and other financing sources over expenditures and other financing uses is financed by beginning available fund balances as provided for in the County Budget Act.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

NOTE 2: CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents includes the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the Commission's account based upon the average daily deposit balance during the allocation period. Cash and Cash Equivalents are shown at the fair value as of June 30, 2003.

NOTE 3: CAPITAL ASSETS

The costs of building and acquiring capital assets (land, buildings, vehicles and equipment) financed from the governmental funds are reported as expenditures in the year they are incurred, and the assets do not appear on the balance sheet. However, the statement of net assets includes those capital assets among the assets of the Commission as a whole, and their original costs are expensed annually over their useful lives. Capital asset activity for governmental activities for the year ended June 30, 2003 follows:

**Local Agency Formation Commission
For San Bernardino County
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2003**

NOTE 3: CAPITAL ASSETS - *continued*

	Balance at July 1, 2002	Additions	Disposals	Balance at June 30, 2003
Governmental activities				
Capital assets being depreciated:				
Equipment	\$ 20,800	\$ 11,440	\$ -	\$ 32,240
Total capital assets being depreciated	<u>20,800</u>	<u>11,440</u>	<u>-</u>	<u>32,240</u>
Less accumulated depreciation for:				
Equipment	5,844	4,498	-	10,342
Total accumulated depreciation	<u>5,844</u>	<u>4,498</u>	<u>-</u>	<u>10,342</u>
Total capital assets being depreciated, net	<u>14,956</u>	<u>6,942</u>	<u>-</u>	<u>21,898</u>
Total net capital assets	<u>\$ 14,956</u>	<u>\$ 6,942</u>	<u>\$ -</u>	<u>\$ 21,898</u>

NOTE 4: DEFERRED REVENUE

At June 30, 2003, the Commission deferred recognition of \$25,311 that had been received. \$11,980 of this amount represents early receipt of 2004 apportionments of the Commission's net operating expenses to cities and independent special districts. The remaining \$13,331 is from service fees not yet earned.

NOTE 5: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). The Plan provides retirement, death, and disability benefits to members. Although legally established as a single employer plan for the County of San Bernardino, the organizations listed below were added later:

City of Big Bear Lake
City of Chino Hills
California State Association of Counties
San Bernardino County Law Library
Crest Forest Fire Protection District
Mojave Desert Air Quality Management District
South Coast Air Quality Management District
Local Agency Formation Commission

The Commission and others covered under the plan are collectively referred to as the "Participating Members." The plan is governed by the San Bernardino County Board of Retirement under the 1937 Act. Employees become eligible for membership on

**Local Agency Formation Commission
for San Bernardino County
Notes to the Financial Statements
June 30, 2002**

NOTE 5: RETIREMENT PLAN - *continued*

their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, San Bernardino, California 92415-0014.

Funding Policy

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.36% - 13.46% of their annual covered salary of which the Commission pays approximately 7%. All employers combined are required to contribute 8.90% of the current year covered payroll. For 2003, the Commission paid \$58,564 to the plan for the 7% and the employer's share. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Section 31453 of the 1937 Act.

**Local Agency Formation Commission
For San Bernardino County
Required Supplementary Information
Budgetary Comparison Schedule
For the Year Ended June 30, 2003**

General Fund	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	Budgetary Basis	Final Budget Positive (negative)
Budgetary fund balance July 1, 2002	\$ 57,824	\$ 57,824	\$ 57,824	\$ -
Resources (inflows):				
Property taxes	-	-	-	-
Other governmental aid	509,921	509,921	510,025	104
Interest	15,000	15,000	8,881	(6,119)
Operating transfers in	-	-	-	-
Charges for services	84,500	84,500	98,985	14,485
Other taxes	-	-	-	-
Other revenue	-	-	-	-
Amounts available for appropriation	667,245	667,245	675,715	8,470
Charges to appropriations (outflows):				
Salaries and benefits	404,163	404,163	377,636	26,527
Services and supplies	247,920	247,920	239,787	8,133
Reserve for equipment	40,720	40,720	-	40,720
Reserve for contingencies	11,832	11,832	-	11,832
Total charges to appropriations	704,635	704,635	617,423	87,212
Budgetary fund balance, June 30, 2003	\$ (37,390)	\$ (37,390)	\$ 58,292	\$ 95,682

**SAN BERNARDINO COUNTY
DEPARTMENT OF CHILDREN'S SERVICES
FIRST 5 SAN BERNARDINO GRANT**

**Financial Statement
With
Independent Auditors' Reports**

**For the Year Ended
June 30, 2003**

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POWELL & SPAFFORD, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

MEMBER,
AMERICAN INSTITUTE OF
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Independent Auditors' Report

To the Board of Supervisors
San Bernardino County Department of Children's Services

We have audited the accompanying statement of grant revenues and expenditures of the San Bernardino County Department of Children's Services' (the Department) First 5 San Bernardino Grant Contract for the year ended June 30, 2003. This statement is the responsibility of the Department's management. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of grant revenues and expenditures was prepared for the purpose of complying with the audit requirements of First 5 San Bernardino as described in Note 1 and is not intended to be a complete presentation of the Department's revenues and expenditures.

In our opinion, the statement referred to above presents fairly, in all material respects, the grant revenues and expenditures of the San Bernardino County Department of Children's Services' First 5 San Bernardino Grant for the year ended June 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2003, on our consideration of the Department's internal control and our test of its compliance with certain provisions of laws, regulations, and contract requirements. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the County's Board of Supervisors, Department of Children's Services management and First 5 San Bernardino, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

December 3, 2003

**SAN BERNARDINO COUNTY DEPARTMENT OF CHILDREN'S SERVICES
FIRST 5 SAN BERNARDINO GRANT**

Statement of Grant Revenues and Expenditures

For the Year Ended June 30, 2003

Revenues

Reimbursements received/receivable	\$ 146,540
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Expenditures

Salaries and benefits	136,846
Conferences	5,616
Children's Necessities	359
Storage lockers	171
Consumable supplies	48
Consultants	<u>3,500</u>

Total expenditures	<u>146,540</u>
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Excess of revenues over expenditures	<u>\$ -</u>
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The accompanying notes are an integral part of this statement.

**SAN BERNARDINO COUNTY DEPARTMENT OF CHILDREN'S SERVICES
FIRST 5 SAN BERNARDINO GRANT**

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies

Description of the Reporting Entity

The statement represents the grant revenues and expenditures of the San Bernardino County Department of Children's Services' (the Department) First 5 San Bernardino Grant as part of the Department's Drug Endangered Children Project (DEC). DEC targets children discovered at clandestine methamphetamine drug labs. This program was designed to provide nurses and social workers to identify and treat drug-endangered children at methamphetamine lab sites. By providing round the clock response to children ages prenatal to age 5 for examination, decontamination and placement in a safe environment. It was expected that at least 200 minors would receive services during the grant period. The grant was funded by First 5 San Bernardino and administered by the San Bernardino County Department of Children's Services. The accompanying statement of grant revenues and expenditures present only the activities of the First 5 San Bernardino Grant and is not intended to present the financial position of the San Bernardino County Department of Children's Services nor the County of San Bernardino itself in conformity with accounting principles generally accepted in the United States of America.

Description of Grant

The funds for this grant are provided by First 5 San Bernardino through the State of California from taxes received under the provisions of Proposition 10 (Cigarette Tax, 1999).

Matching Fund Requirements

The Department was required to provide at least a fifty percent (50%) match of the amount of grant funds awarded towards the payment of a public health clerk. State funds or programs supported by state funds could not be used for matching purposes.

The preparation of this financial statement requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of revenues and expenses, as well as the disclosure of contingent liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of the statement. A description of the significant accounting policies employed in the preparation of this statement follows:

Statement of Grant Revenues and Expenditures

The statement of grant revenues and expenditures presents the eligible costs charged to the First 5 San Bernardino Grant by the San Bernardino County Department of Children's Services and the revenues received/receivable in reimbursement of those costs by First 5 San Bernardino.

**COUNTY OF SAN BERNARDINO CHILDREN'S SERVICES DEPARTMENT
FIRST 5 SAN BERNARDINO GRANT**

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies (Continued)

Basis of Accounting

Revenues and expenditures are presented on a modified accrual basis. Expenditures are recognized in the accounting period in which they are incurred, that is, when goods are received or services are provided. Revenues are recognized in the accounting period in which reimbursable expenditures are incurred.



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**Independent Auditors' Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

To the Board of Supervisors
San Bernardino County Department of Children's Services

We have audited the statement of grant revenues and expenditures for San Bernardino County Department of Children's Services' (the Department) First 5 San Bernardino Grant Contract for the year ended June 30, 2003, and have issued our report thereon dated December 3, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the San Bernardino County Department of Children's Services financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Supervisors, Department of Children's Services management, and First 5 San Bernardino, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 3, 2003



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To the Board of Supervisors
San Bernardino County Department of Children's Services

We have audited the statement of grant revenues and expenditures of San Bernardino County Department of Children's Services' (the Department) First 5 San Bernardino Grant Contract for the year ended June 30, 2003 and have issued our report thereon dated December 3, 2003. Professional standards require that we provide the following information related to our audit:

Our Responsibility Under Auditing Standards Generally Accepted in the United States and Governmental Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statement is free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on the grant program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance.

As part of obtaining reasonable assurance about whether the Department's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Department's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Department are described in Note 1 to the financial statements.

We noted no transactions entered into by the Department as they relate to the First 5 San Bernardino Grant, during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statement prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statement and because of the possibility that future events affecting them may differ significantly from those expected. Estimates for amounts due from granting agencies, including the First 5 San Bernardino are particularly sensitive to estimation in the financial statement.

Significant Audit Adjustments

Significant audit adjustments are required to record those amounts for financial statement reporting purposes that are not recorded on the books and records for the grant. There were no such adjustments for the year ended June 30, 2003.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statement or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Department's financial statement or a determination of the type of auditors' opinion that may be expressed on that statement, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Department's grant auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

We would like to take this opportunity to express our sincere appreciation to all personnel within the San Bernardino County Department of Children's Services for their cooperation and valuable assistance during the performance of this engagement.

This report is intended solely for the information and use of the Board of Supervisors, Department of Children's Services management, and others within County of San Bernardino, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 3, 2003

**SAN BERNARDINO COUNTY
DISTRICT ATTORNEY'S OFFICE AUTOMOBILE
INSURANCE FRAUD PROGRAM GRANT**

**Financial Statement
With
Independent Auditors' Reports**

For the Year Ended June 30, 2003

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POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the accompanying statement of grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) Automobile Insurance Fraud Program Grant in accordance with the State of California's Department of Insurance Criminal Investigations Branch Fraud Division Automobile Insurance Fraud Program Grant Contract for the year ended June 30, 2003. This statement is the responsibility of the Office's management. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and in accordance with the State of California's Department of Insurance Criminal Investigations Branch Fraud Division audit guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of grant revenues and expenditures was prepared for the purpose of complying with the audit requirements of the State of California's Department of Insurance Criminal Investigations Branch Fraud Division as described in Note 1 and is not intended to be a complete presentation of the Office's grant revenues and expenditures.

In our opinion, the statement referred to above presents fairly, in all material respects, the grant revenues and expenditures of the San Bernardino County District Attorney's Office Automobile Insurance Fraud Program Grant in accordance with the State of California's Department of Insurance Criminal Investigations Branch Fraud Division for the year ended June 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2003, on our consideration of the Office's internal control and our test of its compliance with certain provisions of laws, regulations, and contract requirements. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the County's Board of Supervisors, District Attorney's Office management and the California Department of Insurance Criminal Investigations Branch Fraud Division, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

December 3, 2003

**SAN BERNARDINO COUNTY DISTRICT ATTORNEY'S OFFICE
AUTOMOBILE INSURANCE FRAUD PROGRAM GRANT**

Statement of Grant Revenues and Expenditures

For the Year Ended June 30, 2003

Revenues

Reimbursements received/receivable	<u>\$ 563,859</u>
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Expenditures

Salaries and benefits	498,224
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Services and supplies	<u>73,507</u>
-----------------------	---------------

Total expenditures	<u>571,731</u>
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Excess of expenditures over grant revenues received	<u>\$ (7,872)</u>
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The accompanying notes are an integral part of this statement.

**SAN BERNARDINO COUNTY DISTRICT ATTORNEY'S OFFICE
AUTOMOBILE INSURANCE FRAUD PROGRAM GRANT**

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies

Description of the Reporting Entity

The statement represents the grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) Automobile Insurance Fraud Program Grant for the year ended June 30, 2003. The grant is pursuant to the provisions of California Insurance Code Section 1872.8 and is solely for the purposes of enhancing investigation and prosecution of automobile insurance fraud cases. The grant was funded by the State of California Department of Insurance Criminal Investigations Branch Fraud Division and administered by the San Bernardino County District Attorney's Office. The accompanying statement of grant revenues and expenses present only the activities of the Automobile Insurance Fraud Program Grant and is not intended to present the financial position of the San Bernardino County District Attorney's Office nor the County of San Bernardino itself in conformity with accounting principles generally accepted in the United States of America.

Description of Grant

The grant funds are issued pursuant to authority granted to the California Insurance Commissioner under the provisions of Section 1872.8 of the California Insurance Code to all local district attorneys for distribution of funding for the investigation and prosecution of automobile insurance fraud cases.

The preparation of this financial statement requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of revenues and expenses, as well as the disclosure of contingent liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of the statement. A description of the significant accounting policies employed in the preparation of this statement follows:

Statement of Grant Revenues and Expenditures

The statement of grant revenues and expenditures presents the eligible costs charged to the Automobile Insurance Fraud Program Grant by the San Bernardino County District Attorney's Office and the revenues received in reimbursement of those costs by the State of California Department of Insurance Criminal Investigations Branch Fraud Division.

Basis of Accounting

Revenues and expenditures are presented on a modified accrual basis. Expenditures are recognized in the accounting period in which they are incurred, that is, when goods are received or services are provided. Revenues are recognized in the accounting period in which reimbursable expenditures are incurred.



POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditors' Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

To the Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the statement of grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) Automobile Insurance Fraud Program in accordance with the State of California's Automobile Insurance Fraud Program Grant Contract for the year ended June 30, 2003 and have issued our report thereon dated December 3, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Office's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Supervisors, District Attorney's Office management, and the California Department of Insurance Criminal Investigations Branch Fraud Division, and is not intended to be, and should not be, used by anyone other than these specified parties

December 3, 2003



POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

MEMBER:
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Independent Auditors' Report on State Compliance

To the Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the statement of grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) Automobile Insurance Fraud Program in accordance with the State of California's Automobile Insurance Fraud Program Grant Contract for the year ended June 30, 2003 and have issued our report thereon dated December 3, 2003. Our audit was made in accordance with auditing standards generally accepted in the United States of America, the standards for financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States and Section 1872.8 of the California Insurance Code. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Office's management is responsible for the Office's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the Office's compliance with the state laws and regulations applicable to the following:

- Expenditures were made for the purposes of the program as specified in Section 1872.8 of the Insurance Code, the Regulations, and the guidelines in the Request for Application and the County Plan.

Based on our audit, we found that, for the items tested, the Office complied with the laws and regulations referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Office had not complied with state laws and regulations.

This report is intended solely for the information and use of the Board of Supervisors, District Attorney's Office management, and the California Department of Insurance Criminal Investigations Branch Fraud Division, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 3, 2003



POWELL & SPAFFORD, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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MEMBER:
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To the Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the statement of grant revenues and expenditures of San Bernardino District Attorney's Office (Office) Automobile Insurance Fraud Program Grant for the year ended June 30, 2003 and have issued our report thereon dated December 3, 2003. Professional standards require that we provide the following information related to our audit:

Our Responsibility Under Auditing Standards Generally Accepted in the United States and Governmental Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statement is free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on the grant program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance.

As part of obtaining reasonable assurance about whether the Office's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with the State of California's Automobile Insurance Fraud Program, we examined, on a test basis, evidence about the Office's compliance with the types of requirements described in the State of California's Automobile Insurance Fraud Program audit guide for the purpose of expressing an opinion on the Office's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Office's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Office are described in Note 1 to the financial statements.

We noted no transactions entered into by the Office as they relate to the State of California's Automobile Insurance Fraud Program Grant during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statement prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statement and because of the possibility that future events affecting them may differ significantly from those expected. Estimates for amounts due from granting agencies, including the State of California are particularly sensitive to estimation in the financial statement.

Significant Audit Adjustments

Significant audit adjustments are required to record those amounts for financial statement reporting purposes that are not recorded on the books and records for the grant. There were no such adjustments for the year ended June 30, 2003.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statement or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Office's financial statement or a determination of the type of auditors' opinion that may be expressed on that statement, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Office's grant auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

We would like to take this opportunity to express our sincere appreciation to all personnel within the San Bernardino County District Attorney's Office for their cooperation and valuable assistance during the performance of this engagement.

This report is intended solely for the information and use of the Board of Supervisors, District Attorney's Office management, and others within County of San Bernardino, and is not intended to be, and should not be, used by anyone other than these specified parties.

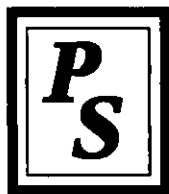
December 3, 2003

**SAN BERNARDINO COUNTY
DISTRICT ATTORNEY' OFFICE
CAREER CRIMINAL PROSECUTION
PROGRAM GRANT
Contract # CP01120360**

**Financial Statement
With
Independent Auditors' Reports
For the Year Ended June 30, 2003**

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POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

MEMBER
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Independent Auditors' Report

To the Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the accompanying statement of grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) Career Criminal Prosecution Program Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # CP01120360 for the year ended June 30, 2003. This statement is the responsibility of the Office's management. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and in accordance with the State of California's Office of Criminal Justice Planning Handbook. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of grant revenues and expenditures was prepared for the purpose of complying with the audit requirements of the State of California's Office of Criminal Justice Planning Handbook as described in Note 1 and is not intended to be a complete presentation of the Office's revenues and expenditures.

In our opinion, the statement referred to above presents fairly, in all material respects, the grant revenues and expenditures of the San Bernardino County District Attorney's Office Career Criminal Prosecution Program Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # CP01120360 for the year ended June 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2003, on our consideration of the Office's internal control and our test of its compliance with certain provisions of laws, regulations, and contract requirements. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the County's Board of Supervisors, District Attorney's Office management and the State of California's Office of Criminal Justice Planning, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

December 16, 2003

**SAN BERNARDINO COUNTY DISTRICT ATTORNEY'S OFFICE
CAREER CRIMINAL PROSECUTION PROGRAM GRANT
CONTRACT # CP01120360**

Statement of Grant Revenues and Expenditures

For the Year Ended June 30, 2003

Revenues

Reimbursements received/receivable	\$ <u>271,539</u>
------------------------------------	-------------------

Expenditures

Salaries	<u>271,539</u>
----------	----------------

Total expenditures	<u>271,539</u>
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Excess of expenditures over grant revenues received	<u>\$ -</u>
---	-------------

The accompanying notes are an integral part of this statement.

**SAN BERNARDINO COUNTY DISTRICT ATTORNEY'S OFFICE
CAREER CRIMINAL PROSECUTION PROGRAM GRANT
CONTRACT # CP01120360**

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies

Description of the Reporting Entity

The statement represents the grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) State of California's Office of Criminal Justice Planning (OCJP) Career Criminal Prosecution Program Grant Contract # CP01120360 for the year ended June 30, 2003. The grant was funded by OCJP and administered by the San Bernardino County District Attorney's Office. The accompanying statement of grant revenues and expenses presents only the activities of the Career Criminal Prosecution Program Grant Contract # CP01120360 and is not intended to present the financial position of the San Bernardino County District Attorney's Office nor the County of San Bernardino itself in conformity with accounting principles generally accepted in the United States of America.

Description of Grant

The grant funds were made available to assist District Attorney's Offices in establishing and maintaining a focused unit of skill attorneys who maintain small caseloads enabling them to devote sufficient time to investigate and vertically prosecute career felony offenders.

The preparation of this financial statement requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of revenues and expenses, as well as the disclosure of contingent liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of the statement. A description of the significant accounting policies employed in the preparation of this statement follows:

Statement of Grant Revenues and Expenditures

The statement of grant revenues and expenditures presents the eligible costs charged to the Career Criminal Prosecution Program Grant Contract # CP01120360 by the San Bernardino County District Attorney's Office and the revenues received in reimbursement of those costs by OCJP.

Basis of Accounting

Revenues and expenditures are presented on a modified accrual basis. Expenditures are recognized in the accounting period in which they are incurred, that is, when goods are received or services are provided. Revenues are recognized in the accounting period in which reimbursable expenditures are incurred.



POWELL & SPAFFORD, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

MEMBER:
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**Independent Auditors' Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

To the Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the statement of grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) Career Criminal Prosecution Program Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # CP01120360 for the year ended June 30, 2003 and have issued our report thereon dated December 16, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Office's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests, disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the County's Board of Supervisors, District Attorney's Office management, and the State of California's Office of Criminal Justice Planning, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 16, 2003

**SAN BERNARDINO COUNTY DISTRICT ATTORNEY'S OFFICE
CAREER CRIMINAL PROSECUTION PROGRAM GRANT
CONTRACT # CP01120360**

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2003**

Findings and Questions Costs for the Year Ended June 30, 2003:

No Findings to report.

Status of Prior Year Findings and Questioned Costs:

Summarized Prior Year Finding

District Attorney's Office employees, who are assigned to more than one OCJP grant, are not completing timecards to support the percentage of salaries allocated to multiple grants.

Current Status

The Office eliminated the finding for those employees that are involved in more than one OCJP grant.



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CERTIFIED PUBLIC ACCOUNTANTS

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To the Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the statement of grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) Career Criminal Prosecution Program Grant for the year ended June 30, 2003 and have issued our report thereon dated December 16, 2003. Professional standards require that we provide the following information related to our audit:

Our Responsibility Under Auditing Standards Generally Accepted in the United States and Governmental Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statement is free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on the grant program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance.

As part of obtaining reasonable assurance about whether the Office's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with the Career Criminal Prosecution Program Grant, we examined, on a test basis, evidence about the Office's compliance with the types of requirements described in the State of California's Office of Criminal Justice Planning Handbook for the purpose of expressing an opinion on the Office's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Office's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Office are described in Note 1 to the financial statement.

We noted no transactions entered into by the Office as they relate to the Career Criminal Prosecution Program Grant during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statement prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statement and because of the possibility that future events affecting them may differ significantly from those expected. Estimates for amounts due from granting agencies, including the State of California are particularly sensitive to estimation in the financial statement.

Significant Audit Adjustments

Significant audit adjustments are required to record those amounts for financial statement reporting purposes that are not recorded on the books and records for the grant. There were no such adjustments for the year ended June 30, 2003.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statement or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Office's financial statement or a determination of the type of auditors' opinion that may be expressed on that statement, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Office's grant auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

We would like to take this opportunity to express our sincere appreciation to all personnel within the San Bernardino County District Attorney's Office for their cooperation and valuable assistance during the performance of this engagement.

This report is intended solely for the information and use of the County's Board of Supervisors, District Attorney's Office management, and others within County of San Bernardino, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 16, 2003

**SAN BERNARDINO COUNTY
DISTRICT ATTORNEY'S OFFICE
ELDER ABUSE ADVOCACY AND OUTREACH
PROGRAM GRANT
Contract # EA98010360**

**Financial Statement
With
Independent Auditors' Reports**

For the Fifteen Months Ended September 30, 2003

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POWELL & SPAFFORD, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CDA
Patrick D. Spafford, CDA

MEMBER
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Independent Auditors' Report

To the Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the accompanying statement of grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) Elder Abuse Advocacy and Outreach Program Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # EA98010360 for the fifteen months ended September 30, 2003. This statement is the responsibility of the Office's management. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and in accordance with the State of California's Office of Criminal Justice Planning Handbook. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of grant revenues and expenditures was prepared for the purpose of complying with the audit requirements of the State of California's Office of Criminal Justice Planning Handbook as described in Note 1 and is not intended to be a complete presentation of the Office's revenues and expenditures.

In our opinion, the statement referred to above presents fairly, in all material respects, the grant revenues and expenditures of the San Bernardino County District Attorney's Office Elder Abuse Advocacy and Outreach Program Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # EA98010360 for the fifteen months ended September 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2003, on our consideration of the Office's internal control and our test of its compliance with certain provisions of laws, regulations, and contract requirements. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the County's Board of Supervisors, District Attorney's Office management and the State of California's Office of Criminal Justice Planning, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

December 10, 2003

**SAN BERNARDINO COUNTY DISTRICT ATTORNEY'S OFFICE
ELDER ABUSE ADVOCACY AND OUTREACH PROGRAM GRANT
CONTRACT # EA98010360**

Statement of Grant Revenues and Expenditures

For the Fifteen Months Ended September 30, 2003

	<u>Funds Requested</u>	<u>Matching Funds</u>	<u>Total</u>
Revenues			
Reimbursements received/receivable			\$ 177,957
Expenditures			
Salaries and benefits	\$ 151,728	\$ 44,489	196,217
Services and supplies	<u>26,229</u>	<u>-</u>	<u>26,229</u>
 Total expenditures	 <u>177,957</u>	 <u>44,489</u>	 <u>222,446</u>
 Excess of expenditures over grant revenues received - Office cash match			 <u>\$ (44,489)</u>

The accompanying notes are an integral part of this statement.

**SAN BERNARDINO COUNTY DISTRICT ATTORNEY'S OFFICE
ELDER ABUSE ADVOCACY AND OUTREACH PROGRAM GRANT
CONTRACT # EA98010360**

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies

Description of the Reporting Entity

The statement represents the grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) State of California's Office of Criminal Justice Planning (OCJP) Elder Abuse Advocacy and Outreach Program Grant Contract # EA98010360 for the fifteen months ended September 30, 2003. The grant was funded by OCJP and administered by the San Bernardino County District Attorney's Office. The accompanying statement of grant revenues and expenses presents only the activities of the Elder Abuse Advocacy and Outreach Program Grant Contract # EA98010360 and is not intended to present the financial position of the San Bernardino County District Attorney's Office nor the County of San Bernardino itself in conformity with accounting principles generally accepted in the United States of America.

Description of Grant

The grant funds were made available to identify elder abuse victims and provide them with direct advocacy services, including crisis intervention, counseling and referral assistance to agencies serving elder abuse victims.

The preparation of this financial statement requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of revenues and expenses, as well as the disclosure of contingent liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of the statement. A description of the significant accounting policies employed in the preparation of this statement follows:

Statement of Grant Revenues and Expenditures

The statement of grant revenues and expenditures presents the eligible costs charged to the Elder Abuse Advocacy and Outreach Program Grant Contract # EA98010360 by the San Bernardino County District Attorney's Office and the revenues received in reimbursement of those costs by OCJP.

Basis of Accounting

Revenues and expenditures are presented on a modified accrual basis. Expenditures are recognized in the accounting period in which they are incurred, that is, when goods are received or services are provided. Revenues are recognized in the accounting period in which reimbursable expenditures are incurred.



POWELL & SPAFFORD, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

MEMBER
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**Independent Auditors' Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

To the Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the statement of grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) Elder Abuse Advocacy and Outreach Program Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # EA98010360 for the fifteen months ended September 30, 2003 and have issued our report thereon dated December 10, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Office's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests, disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the County's Board of Supervisors, District Attorney's Office management, and the State of California's Office of Criminal Justice Planning, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 10, 2003

**SAN BERNARDINO COUNTY DISTRICT ATTORNEY'S OFFICE
ELDER ABUSE ADVOCACY AND OUTREACH PROGRAM GRANT
CONTRACT # EA98010360**

**Schedule of Findings and Questioned Costs
For the Fifteen Months Ended September 30, 2003**

Findings and Questions Costs for the fifteen months ended September 30, 2003:

No Findings to report.

Status of Prior Year Findings and Questioned Costs:

Summarized Prior Year Finding

District Attorney's Office employees, who are assigned to more than one OCJP grant, are not completing timecards to support the percentage of salaries allocated to multiple grants.

Current Status

The Office eliminated the finding for those employees that are involved in more than one OCJP grant.



POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

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To the Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the statement of grant revenues and expenditures of the San Bernardino County District Attorney's Office (Office) Elder Abuse Advocacy and Outreach Program Grant for the fifteen months ended September 30, 2003 and have issued our report thereon dated December 10, 2003. Professional standards require that we provide the following information related to our audit:

Our Responsibility Under Auditing Standards Generally Accepted in the United States and Governmental Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statement is free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on the grant program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance.

As part of obtaining reasonable assurance about whether the Office's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with the Elder Abuse Advocacy and Outreach Program Grant, we examined, on a test basis, evidence about the Office's compliance with the types of requirements described in the State of California's Office of Criminal Justice Planning Handbook for the purpose of expressing an opinion on the Office's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Office's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Office are described in Note 1 to the financial statement.

We noted no transactions entered into by the Office as they relate to the Elder Abuse and Advocacy Outreach Program Grant during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statement prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statement and because of the possibility that future events affecting them may differ significantly from those expected. Estimates for amounts due from granting agencies, including the State of California are particularly sensitive to estimation in the financial statement.

Significant Audit Adjustments

Significant audit adjustments are required to record those amounts for financial statement reporting purposes that are not recorded on the books and records for the grant. There were no such adjustments for the period ended September 30, 2003.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statement or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Office's financial statement or a determination of the type of auditors' opinion that may be expressed on that statement, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Office's grant auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

We would like to take this opportunity to express our sincere appreciation to all personnel within the San Bernardino County District Attorney's Office for their cooperation and valuable assistance during the performance of this engagement.

This report is intended solely for the information and use of the County's Board of Supervisors, District Attorney's Office management, and others within County of San Bernardino, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 10, 2003

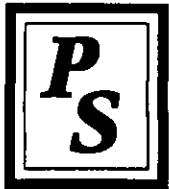
**SAN BERNARDINO COUNTY
DISTRICT ATTORNEY' OFFICE
MAJOR NARCOTICS VENDOR PROSECUTION
PROGRAM GRANT
Contract # NV02040360**

**Financial Statement
With
Independent Auditors' Reports**

For the Year Ended June 30, 2003

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POWELL & SPAFFORD, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

MEMBER
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Independent Auditors' Report

To the Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the accompanying statement of grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) Major Narcotics Vendor Prosecution Program Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # NV02040360 for the year ended June 30, 2003. This statement is the responsibility of the Office's management. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and in accordance with the State of California's Office of Criminal Justice Planning Handbook. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of grant revenues and expenditures was prepared for the purpose of complying with the audit requirements of the State of California's Office of Criminal Justice Planning Handbook as described in Note 1 and is not intended to be a complete presentation of the Office's revenues and expenditures.

In our opinion, the statement referred to above presents fairly, in all material respects, the grant revenues and expenditures of the San Bernardino County District Attorney's Office Major Narcotics Vendor Prosecution Program Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # NV02040360 for the year ended June 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2003, on our consideration of the Office's internal control and our test of its compliance with certain provisions of laws, regulations, and contract requirements. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the County's Board of Supervisors, District Attorney's Office management and the State of California's Office of Criminal Justice Planning, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

December 9, 2003

**SAN BERNARDINO COUNTY DISTRICT ATTORNEY'S OFFICE
MAJOR NARCOTICS VENDOR PROSECUTION PROGRAM GRANT
CONTRACT # NV02040360**

Statement of Grant Revenues and Expenditures

For the Year Ended June 30, 2003

Revenues

Reimbursements received/receivable	<u>\$ 169,270</u>
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Expenditures

Salaries	<u>169,270</u>
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Total expenditures	<u>169,270</u>
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Excess of expenditures over grant revenues received	<u>\$ -</u>
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The accompanying notes are an integral part of this statement.

**SAN BERNARDINO COUNTY DISTRICT ATTORNEY'S OFFICE
MAJOR NARCOTICS VENDOR PROSECUTION
PROGRAM GRANT
CONTRACT # NV02040360**

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies

Description of the Reporting Entity

The statement represents the grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) State of California's Office of Criminal Justice Planning (OCJP) Major Narcotics Vendor Prosecution Program Grant Contract # NV02040360 for the year ended June 30, 2003. The grant was funded by OCJP and administered by the San Bernardino County District Attorney's Office. The accompanying statement of grant revenues and expenses presents only the activities of the Major Narcotics Vendor Prosecution Program Grant Contract # NV02040360 and is not intended to present the financial position of the San Bernardino County District Attorney's Office nor the County of San Bernardino itself in conformity with accounting principles generally accepted in the United States of America.

Description of Grant

The grant funds are made available on an annual basis to provide two experienced Deputy District Attorneys to prosecute major narcotics manufacturers and high-level traffickers countywide.

The preparation of this financial statement requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of revenues and expenses, as well as the disclosure of contingent liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of the statement. A description of the significant accounting policies employed in the preparation of this statement follows:

Statement of Grant Revenues and Expenditures

The statement of grant revenues and expenditures presents the eligible costs charged to the Major Narcotics Vendor Prosecution Program Grant Contract # NV02040360 by the San Bernardino County District Attorney's Office and the revenues received in reimbursement of those costs by OCJP.

Basis of Accounting

Revenues and expenditures are presented on a modified accrual basis. Expenditures are recognized in the accounting period in which they are incurred, that is, when goods are received or services are provided. Revenues are recognized in the accounting period in which reimbursable expenditures are incurred.



POWELL & SPAFFORD, LLP

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**Independent Auditors' Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

To the Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the statement of grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) Major Narcotics Vendor Prosecution Program Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # NV02040360 for the year ended June 30, 2003 and have issued our report thereon dated December 9, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Office's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests, disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the County's Board of Supervisors, District Attorney's Office management, and OCJP, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 9, 2003

**SAN BERNARDINO COUNTY DISTRICT ATTORNEY'S OFFICE
MAJOR NARCOTICS VENDOR PROSECUTION PROGRAM GRANT
CONTRACT # NV02040360**

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2003**

Findings and Questions Costs for the Year Ended June 30, 2003:

No findings to report.

Status of Prior Year Findings and Questioned Costs:

Summarized Prior Year Finding

District Attorney's Office employees,' who are assigned to more than one OCJP grant, are not completing timecards to support the percentage of salaries allocated to multiple grants.

Current Status

The Office eliminated the finding for those employees that are involved in more than one OCJP grant.

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To the Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the statement of grant revenues and expenditures of San Bernardino District Attorney's Office (Office) Major Narcotics Vendor Prosecution Program Grant for the year ended June 30, 2003 and have issued our report thereon dated December 9, 2003. Professional standards require that we provide the following information related to our audit:

Our Responsibility Under Auditing Standards Generally Accepted in the United States and Governmental Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statement is free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on the grant program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance.

As part of obtaining reasonable assurance about whether the Office's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with the Major Narcotics Vendor Prosecution Program Grant, we examined, on a test basis, evidence about the Office's compliance with the types of requirements described in the State of California Office of Criminal Justice Planning Handbook for the purpose of expressing an opinion on the Office's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Office's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Office are described in Note 1 to the financial statement.

We noted no transactions entered into by the Office as they relate to the Major Narcotics Vendor Prosecution Program Grant during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statement prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statement and because of the possibility that future events affecting them may differ significantly from those expected. Estimates for amounts due from granting agencies, including the State of California are particularly sensitive to estimation in the financial statement.

Significant Audit Adjustments

Significant audit adjustments are required to record those amounts for financial statement reporting purposes that are not recorded on the books and records for the grant. There were no such adjustments for the year ended June 30, 2003.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statement or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Office's financial statement or a determination of the type of auditors' opinion that may be expressed on that statement, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Office's grant auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

We would like to take this opportunity to express our sincere appreciation to all personnel within the San Bernardino County District Attorney's Office for their cooperation and valuable assistance during the performance of this engagement.

This report is intended solely for the information and use of the County's Board of Supervisors, District Attorney's Office management, and others within County of San Bernardino, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 9, 2003

**SAN BERNARDINO COUNTY
DISTRICT ATTORNEY'S OFFICE
ORGANIZED AUTOMOBILE FRAUD ACTIVITY
INTERDICTION PROGRAM GRANT
(URBAN GRANT)**

**Financial Statement
With
Independent Auditors' Reports
For the Year Ended June 30, 2003**

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POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

MEMBERS
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the accompanying statement of grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) Organized Automobile Fraud Activity Interdiction Program Grant (Urban Grant) in accordance with the State of California's Department of Insurance Criminal Investigations Branch Fraud Division Automobile Insurance Fraud Program Grant Contract for the year ended June 30, 2003. This statement is the responsibility of the Office's management. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and in accordance with the State of California's Department of Insurance Criminal Investigations Branch Fraud Division audit guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of grant revenues and expenditures was prepared for the purpose of complying with the audit requirements of the State of California's Department of Insurance Criminal Investigations Branch Fraud Division as described in Note 1 and is not intended to be a complete presentation of the Office's grant revenues and expenditures.

In our opinion, the statement referred to above presents fairly, in all material respects, the grant revenues and expenditures of the San Bernardino County District Attorney's Office Organized Automobile Fraud Activity Interdiction Program Grant (Urban Grant) in accordance with the State of California's Department of Insurance Criminal Investigations Branch Fraud Division for the year ended June 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2003, on our consideration of the Office's internal control and our test of its compliance with certain provisions of laws, regulations, and contract requirements. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the County's Board of Supervisors, District Attorney's Office management and the California Department of Insurance Criminal Investigations Branch Fraud Division, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

December 10, 2003

**SAN BERNARDINO COUNTY DISTRICT ATTORNEY'S OFFICE
ORGANIZED AUTOMOBILE FRAUD ACTIVITY INTERDICTION PROGRAM GRANT
(URBAN GRANT)**

Statement of Grant Revenues and Expenditures

For the Year Ended June 30, 2003

Revenues

Carryover of unspent funds from previous year	\$ 59,578
Reimbursements received	<u>240,893</u>

Total revenues	<u>300,471</u>
----------------	----------------

Expenditures

Salaries and benefits	199,533
Services and supplies	<u>35,765</u>

Total expenditures	<u>235,298</u>
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Excess of expenditures over grant revenues	<u>\$ 65,173</u>
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The accompanying notes are an integral part of this statement.

**SAN BERNARDINO COUNTY DISTRICT ATTORNEY OFFICE'S
ORGANIZED AUTOMOBILE FRAUD ACTIVITY INTERDICTION PROGRAM GRANT
(URBAN GRANT)**

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies

Description of the Reporting Entity

The statement represents the grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) Organized Automobile Fraud Activity Interdiction Program Grant (Urban Grant) for the year ended June 30, 2003. The grant is pursuant to the provisions of California Insurance Code Section 1874.8 and is solely for the purposes of prosecution and elimination of organized automobile fraud cases. The grant was funded by the State of California Department of Insurance Criminal Investigations Branch Fraud Division and administered by the San Bernardino County District Attorney's Office. The accompanying statement of grant revenues and expenses present only the activities of the Organized Automobile Fraud Activity Interdiction Program Grant (Urban Grant) and is not intended to present the financial position of the San Bernardino County District Attorney's Office nor the County of San Bernardino itself in conformity with accounting principles generally accepted in the United States of America.

Description of Grant

The grant funds are issued pursuant to authority granted to the California Insurance Commissioner under the provisions of Section 1874.8 of the California Insurance Code to all local district attorneys for distribution of funding for prosecution and elimination of organized automobile fraud cases.

The preparation of this financial statement requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of revenues and expenses, as well as the disclosure of contingent liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of the statement. A description of the significant accounting policies employed in the preparation of this statement follows:

Statement of Grant Revenues and Expenditures

The statement of grant revenues and expenditures presents the eligible costs charged to the Organized Automobile Fraud Activity Interdiction Program Grant (Urban Grant) by the San Bernardino County District Attorney's Office and the revenues received in reimbursement of those costs by the State of California Department of Insurance Criminal Investigations Branch Fraud Division.

Basis of Accounting

Revenues and expenditures are presented on a modified accrual basis. Expenditures are recognized in the accounting period in which they are incurred, that is, when goods are received or services are provided. Revenues are recognized in the accounting period in which reimbursable expenditures are incurred.



POWELL & SPAFFORD, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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**Independent Auditors' Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

To the Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the statement of grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) Organized Automobile Fraud Activity Interdiction Program Grant (Urban Grant) in accordance with the State of California's Automobile Insurance Fraud Program Contract for the year ended June 30, 2003 and have issued our report thereon dated December 10, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Office's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported herein under *Government Auditing Standards* issued by the Comptroller General of the United States as follows:

Finding

The annual report submitted to the granting agency did not properly report the actual expenditures incurred by the Office based on grant requirements. In addition, the Office overspent the grant for the salaries and benefits line item and under spent the grant for the operating expenses line item, without obtaining approval for a budget modification.

Recommendation

We recommend that the Office develop a reconciliation process for incorporating differences between the Office's general ledger and grant requirements. We also recommend that the Office utilize their in-house quarterly reports for the grant to determine when budget modifications should be requested.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Supervisors, District Attorney's Office management, and the California Department of Insurance Criminal Investigations Branch Fraud Division, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 10, 2003



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Independent Auditors' Report on State Compliance

To the San Bernardino County Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the statement of grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) in accordance with the State of California's Automobile Insurance Fraud Program Grant Contract for the year ended June 30, 2003 and have issued our report thereon dated December 10, 2003. Our audit was made in accordance with auditing standards generally accepted in the United States of America, the standards for financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States and Section 1874.8 of the California Insurance Code. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Office's management is responsible for the Office's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the Office's compliance with the state laws and regulations applicable to the following:

- Expenditures were made for the purposes of the program as specified in Section 1872.8 of the Insurance Code, the Regulations, and the guidelines in the Request for Application and the County Plan.

As described below the Office did not comply with certain requirements regarding reporting that are applicable to its Automobile Insurance Fraud Program.

Finding

The annual report submitted to the granting agency did not properly report the actual expenditures incurred by the Office based on grant requirements. In addition, the Office overspent the grant for the salaries and benefits line item and under spent the grant for the operating expenses line item, without obtaining approval for a budget modification.

Recommendation

We recommend that the Office develop a reconciliation process for incorporating differences between the Office's general ledger and grant requirements. We also recommend that the Office utilize their in-house quarterly reports for the grant to determine when budget modifications should be requested.

Based on our audit, we found that, except for the finding noted above, the Office complied with the laws and regulations referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Office had not complied with state laws and regulations.

This report is intended solely for the information and use of the Board of Supervisors, District Attorney's Office management, and the California Department of Insurance Criminal Investigations Branch Fraud Division, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 10, 2003



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To the Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the statement of grant revenues and expenditures of San Bernardino District Attorney's Office (Office) Organized Automobile Fraud Activity Interdiction Program Grant (Urban Grant) for the year ended June 30, 2003 and have issued our report thereon dated December 10, 2003. Professional standards require that we provide the following information related to our audit:

Our Responsibility Under Auditing Standards Generally Accepted in the United States and Governmental Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statement is free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on the grant program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance.

As part of obtaining reasonable assurance about whether the Office's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with the State of California's Organized Automobile Fraud Activity Interdiction Program Grant (Urban Grant) we examined, on a test basis, evidence about the Office's compliance with the types of requirements described in the State of California's Insurance Fraud Program Audit Guide for the purpose of expressing an opinion on the Office's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Office's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Office are described in Note 1 to the financial statements.

We noted no transactions entered into by the Office as they relate to the Organized Automobile Fraud Activity Interdiction Program Grant (Urban Grant) during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statement prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statement and because of the possibility that future events affecting them may differ significantly from those expected. Estimates for amounts due from granting agencies, including the State of California are particularly sensitive to estimation in the financial statement.

Significant Audit Adjustments

Significant audit adjustments are required to record those amounts for financial statement reporting purposes that are not recorded on the books and records for the grant. There were no such adjustments for the period ended June 30, 2003.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statement or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Office's financial statement or a determination of the type of auditors' opinion that may be expressed on that statement, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Office's grant auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

We would like to take this opportunity to express our sincere appreciation to all personnel within the San Bernardino County District Attorney's Office for their cooperation and valuable assistance during the performance of this engagement.

This report is intended solely for the information and use of the Board of Supervisors, District Attorney's Office management, and others within County of San Bernardino, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 10, 2003

**SAN BERNARDINO COUNTY
DISTRICT ATTORNEY' OFFICE
SPECIAL EMPHASIS VICTIM'S ASSISTANCE
PROGRAM GRANT
Contract # SE00010360**

**Financial Statement
With
Independent Auditors' Reports**

For the Year Ended September 30, 2003

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POWELL & SPAFFORD, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

To the Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the accompanying statement of grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) Special Emphasis Victim's Assistance Program Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # SE00010360 for the year ended September 30, 2003. This statement is the responsibility of the Office's management. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and in accordance with the State of California's Office of Criminal Justice Planning Handbook. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of grant revenues and expenditures was prepared for the purpose of complying with the audit requirements of the State of California's Office of Criminal Justice Planning Handbook as described in Note 1 and is not intended to be a complete presentation of the Office's revenues and expenditures.

In our opinion, the statement referred to above presents fairly, in all material respects, the grant revenues and expenditures of the San Bernardino County District Attorney's Office Special Emphasis Victim's Assistance Program Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # SE00010360 for the year ended September 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2003, on our consideration of the Office's internal control and our test of its compliance with certain provisions of laws, regulations, and contract requirements. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the County's Board of Supervisors, District Attorney's Office management and the State of California's Office of Criminal Justice Planning, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

December 11, 2003

**SAN BERNARDINO COUNTY DISTRICT ATTORNEY'S OFFICE
SPECIAL EMPHASIS VICTIM'S ASSISTANCE PROGRAM GRANT
CONTRACT # SE00010360**

Statement of Grant Revenues and Expenditures

For the Year Ended September 30, 2003

	<u>Funds Requested</u>	<u>Matching Funds</u>	<u>Total</u>
Revenues			
Reimbursements received/receivable			\$ 133,887
Expenditures			
Salaries and benefits	\$ 97,970	\$ 24,492	122,462
Services and supplies	27,111	6,777	33,888
Equipment	<u>8,806</u>	<u>2,200</u>	<u>11,006</u>
Total expenditures	<u>133,887</u>	<u>33,469</u>	<u>167,356</u>
Excess of expenditures over grant revenues received - Office cash match			\$ <u>(33,469)</u>

The accompanying notes are an integral part of this statement.

**SAN BERNARDINO COUNTY DISTRICT ATTORNEY'S OFFICE
SPECIAL EMPHASIS VICTIM'S ASSISTANCE PROGRAM GRANT
CONTRACT # SE00010360**

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies

Description of the Reporting Entity

The statement represents the grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) State of California's Office of Criminal Justice Planning (OCJP) Special Emphasis Victim's Assistance Program Grant Contract # SE00010360 for the year ended September 30, 2003. The grant was funded by OCJP and administered by the San Bernardino County District Attorney's Office. The accompanying statement of grant revenues and expenses presents only the activities of the Special Emphasis Victim's Assistance Program Grant Contract # SE00010360 and is not intended to present the financial position of the San Bernardino County District Attorney's Office nor the County of San Bernardino itself in conformity with accounting principles generally accepted in the United States of America.

Description of Grant

The grant funds were made available to provide direct services to underserved ethnic minority individuals who are victimized by violent crime.

The preparation of this financial statement requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of revenues and expenses, as well as the disclosure of contingent liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of the statement. A description of the significant accounting policies employed in the preparation of this statement follows:

Statement of Grant Revenues and Expenditures

The statement of grant revenues and expenditures presents the eligible costs charged to the Special Emphasis Victim's Assistance Program Grant Contract # SE00010360 by the San Bernardino County District Attorney's Office and the revenues received in reimbursement of those costs by OCJP.

Basis of Accounting

Revenues and expenditures are presented on a modified accrual basis. Expenditures are recognized in the accounting period in which they are incurred, that is, when goods are received or services are provided. Revenues are recognized in the accounting period in which reimbursable expenditures are incurred.



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**Independent Auditors' Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

To the Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the statement of grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) Special Emphasis Victim's Assistance Program Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # SE00010360 for the year ended September 30, 2003 and have issued our report thereon dated December 11, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Office's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests, disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the County's Board of Supervisors, District Attorney's Office management, and the State of California's Office of Criminal Justice Planning, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 11, 2003

**SAN BERNARDINO COUNTY DISTRICT ATTORNEY'S OFFICE
SPECIAL EMPHASIS VICTIM'S ASSISTANCE PROGRAM GRANT
CONTRACT # SE00010360**

**Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2003**

Findings and Questions Costs for the Year Ended September 30, 2003:

No Findings to report.

Status of Prior Year Findings and Questioned Costs:

Summarized Prior Year Finding

District Attorney's Office employees, who are assigned to more than one OCJP grant, are not completing timecards to support the percentage of salaries allocated to multiple grants.

Current Status

The Office eliminated the finding for those employees that are involved in more than one OCJP grant.



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To the Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the statement of grant revenues and expenditures of San Bernardino District Attorney's Office (the Office) Special Emphasis Victim's Assistance Program Grant for the year ended September 30, 2003 and have issued our report thereon dated December 11, 2003. Professional standards require that we provide the following information related to our audit:

Our Responsibility Under Auditing Standards Generally Accepted in the United States and Governmental Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statement is free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on the grant program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance.

As part of obtaining reasonable assurance about whether the Office's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with the Special Emphasis Victim's Assistance Program Grant, we examined, on a test basis, evidence about the Office's compliance with the types of requirements described in the State of California's Office of Criminal Justice Planning Handbook for the purpose of expressing an opinion on the Office's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Office's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Office are described in Note 1 to the financial statement.

We noted no transactions entered into by the Office as they relate to the Special Emphasis Victim's Assistance Program Grant during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statement prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statement and because of the possibility that future events affecting them may differ significantly from those expected. Estimates for amounts due from granting agencies, including the State of California are particularly sensitive to estimation in the financial statement.

Significant Audit Adjustments

Significant audit adjustments are required to record those amounts for financial statement reporting purposes that are not recorded on the books and records for the grant. There were no such adjustments for the year ended September 30, 2003.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statement or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Office's financial statement or a determination of the type of auditors' opinion that may be expressed on that statement, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Office's grant auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit ;

We encountered no significant difficulties in dealing with management in performing and completing our audit.

We would like to take this opportunity to express our sincere appreciation to all personnel within the San Bernardino County District Attorney's Office for their cooperation and valuable assistance during the performance of this engagement.

This report is intended solely for the information and use of the County's Board of Supervisors, District Attorney's Office management, and others within County of San Bernardino, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 11, 2003

**SAN BERNARDINO COUNTY
DISTRICT ATTORNEY' OFFICE
SPOUSAL ABUSER PROSECUTION
PROGRAM GRANT**

**Financial Statement
With
Independent Auditors' Reports**

For the Year Ended June 30, 2003

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Independent Auditors' Report

To the Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the accompanying statement of grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) Spousal Abuser Prosecution Program Grant in accordance with the State of California's Department of Justice Contract for the year ended June 30, 2003. This statement is the responsibility of the Office's management. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of grant revenues and expenditures was prepared for the purpose of complying with the audit requirements of the State of California's Department of Justice as described in Note 1 and is not intended to be a complete presentation of the Office's revenues and expenditures.

In our opinion, the statement referred to above presents fairly, in all material respects, the grant revenues and expenditures of the San Bernardino County District Attorney's Office Spousal Abuser Prosecution Program Grant in accordance with the State of California's Department of Justice Contract for the year ended June 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2003, on our consideration of the Office's internal control and our test of its compliance with certain provisions of laws, regulations, and contract requirements. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the County's Board of Supervisors, District Attorney's Office management and the State of California's Department of Justice, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

December 12, 2003

**SAN BERNARDINO COUNTY DISTRICT ATTORNEY'S OFFICE
SPOUSAL ABUSER PROSECUTION PROGRAM GRANT
Statement of Grant Revenues and Expenditures**

For the Year Ended June 30, 2003

	<u>Funds Requested</u>	<u>Matching Funds</u>	<u>Total</u>
Revenues			
Reimbursements received/receivable			\$ 95,033
Expenditures			
Salaries	\$ 76,397	\$ 15,280	91,677
Benefits	<u>18,636</u>	<u>3,727</u>	<u>22,363</u>
Total expenditures	<u>95,033</u>	<u>19,007</u>	<u>114,040</u>
Excess of expenditures over grant revenues received - Office cash match			<u>\$ (19,007)</u>

The accompanying notes are an integral part of this statement.

**SAN BERNARDINO COUNTY DISTRICT ATTORNEY'S OFFICE
SPOUSAL ABUSER PROSECUTION PROGRAM GRANT**

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies

Description of the Reporting Entity

The statement represents the grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) Spousal Abuser Prosecution Program Grant for the year ended June 30, 2003. The grant was funded by California Department of Justice and administered by the San Bernardino County District Attorney's Office. The accompanying statement of grant revenues and expenses presents only the activities of the Spousal Abuser Prosecution Program Grant and is not intended to present the financial position of the San Bernardino County District Attorney's Office nor the County of San Bernardino itself in conformity with accounting principles generally accepted in the United States of America.

Description of Grant

The grant funds were made available to ensure the safety of the victim, accountability for the batterer, improvement in the investigation and prosecution techniques in San Bernardino County.

The preparation of this financial statement requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of revenues and expenses, as well as the disclosure of contingent liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of the statement. A description of the significant accounting policies employed in the preparation of this statement follows:

Statement of Grant Revenues and Expenditures

The statement of grant revenues and expenditures presents the eligible costs charged to the Spousal Abuser Prosecution Program Grant by the San Bernardino County District Attorney's Office and the revenues received in reimbursement of those costs by California Department of Justice.

Basis of Accounting

Revenues and expenditures are presented on a modified accrual basis. Expenditures are recognized in the accounting period in which they are incurred, that is, when goods are received or services are provided. Revenues are recognized in the accounting period in which reimbursable expenditures are incurred.



POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditors' Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

To the Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the statement of grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) Spousal Abuser Prosecution Program Grant in accordance with the State of California's Department of Justice for the year ended June 30, 2003 and have issued our report thereon dated December 12, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Office's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests, disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the County's Board of Supervisors, District Attorney's Office management, and California Department of Justice, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 12, 2003

**SAN BERNARDINO COUNTY DISTRICT ATTORNEY'S OFFICE
SPOUSAL ABUSER PROSECUTION PROGRAM GRANT**

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2003**

Findings and Questions Costs for the Year Ended June 30, 2003:

No findings to report.

Status of Prior Year Findings and Questioned Costs:

Summarized Prior Year Finding

District Attorney's Office employees, who are assigned to more than one grant, are not completing timecards to support the percentage of salaries allocated to multiple grants.

Current Status

The Office eliminated the finding for those employees that are involved in more than one grant.



POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

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CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the statement of grant revenues and expenditures of San Bernardino District Attorney's Office (Office) Spousal Abuser Prosecution Program Grant for the year ended June 30, 2003 and have issued our report thereon dated December 12, 2003. Professional standards require that we provide the following information related to our audit:

Our Responsibility Under Auditing Standards Generally Accepted in the United States and Governmental Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statement is free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on the grant program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance.

As part of obtaining reasonable assurance about whether the Office's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with the Spousal Abuser Prosecution Program Grant, we examined, on a test basis, evidence about the Office's compliance with the types of requirements described in the California Department of Justice contract for the purpose of expressing an opinion on the Office's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Office's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Office are described in Note 1 to the financial statement.

We noted no transactions entered into by the Office as they relate to the Spousal Abuser Prosecution Program Grant during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statement prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statement and because of the possibility that future events affecting them may differ significantly from those expected. Estimates for amounts due from granting agencies, including the State of California are particularly sensitive to estimation in the financial statement.

Significant Audit Adjustments

Significant audit adjustments are required to record those amounts for financial statement reporting purposes that are not recorded on the books and records for the grant. There were no such adjustments for the year ended June 30, 2003.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statement or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Office's financial statement or a determination of the type of auditors' opinion that may be expressed on that statement, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Office's grant auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

We would like to take this opportunity to express our sincere appreciation to all personnel within the San Bernardino County District Attorney's Office for their cooperation and valuable assistance during the performance of this engagement.

This report is intended solely for the information and use of the County's Board of Supervisors, District Attorney's Office management, and others within County of San Bernardino, and is not intended to be, and should not be, used by anyone other than these specified parties.

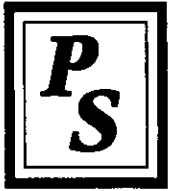
December 12, 2003

**SAN BERNARDINO COUNTY
DISTRICT ATTORNEY' OFFICE
STATUTORY RAPE VERTICAL PROSECUTION
PROGRAM GRANT
Contract # SR02060360**

**Financial Statement
With
Independent Auditors' Reports
For the Year Ended June 30, 2003**

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POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

MEMBER
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Independent Auditors' Report

To the Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the accompanying statement of grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) Statutory Rape Vertical Prosecution Program Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # SR02060360 for the year ended June 30, 2003. This statement is the responsibility of the Office's management. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and in accordance with the State of California's Office of Criminal Justice Planning Handbook. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of grant revenues and expenditures was prepared for the purpose of complying with the audit requirements of the State of California's Office of Criminal Justice Planning Handbook as described in Note 1 and is not intended to be a complete presentation of the Office's revenues and expenditures.

In our opinion, the statement referred to above presents fairly, in all material respects, the grant revenues and expenditures of the San Bernardino County District Attorney's Office Statutory Rape Vertical Prosecution Program Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # SR02060360 for the year ended June 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2003, on our consideration of the Office's internal control and our test of its compliance with certain provisions of laws, regulations, and contract requirements. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the County's Board of Supervisors, District Attorney's Office management and the State of California's Office of Criminal Justice Planning, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

December 14, 2003

**SAN BERNARDINO COUNTY DISTRICT ATTORNEY'S OFFICE
STATUTORY RAPE VERTICAL PROSECUTION PROGRAM GRANT
SR02060360**

Statement of Grant Revenues and Expenditures

For the Year Ended June 30, 2003

	<u>Total</u>
Revenues	
Reimbursements received/receivable	\$ 274,820
Expenditures	
Salaries and benefits	245,774
Services and supplies	<u>29,046</u>
Total expenditures	<u>274,820</u>
Excess of expenditures over grant revenues received	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

**SAN BERNARDINO COUNTY DISTRICT ATTORNEY'S OFFICE
STATUTORY RAPE VERTICAL PROSECUTION PROGRAM GRANT
CONTRACT # SR02060360**

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies

Description of the Reporting Entity

The statement represents the grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) State of California's Office of Criminal Justice Planning (OCJP) Statutory Rape Vertical Prosecution Program Grant Contract # SR02060360 for the year ended June 30, 2003. The grant was funded by OCJP and administered by the San Bernardino County District Attorney's Office. The accompanying statement of grant revenues and expenses presents only the activities of the Statutory Rape Vertical Prosecution Program Grant Contract # SR02060360 and is not intended to present the financial position of the San Bernardino County District Attorney's Office nor the County of San Bernardino itself in conformity with accounting principles generally accepted in the United States of America:

Description of Grant

The grant funds were made available to establish specialized units to investigate and vertically prosecute incidents of unlawful sexual intercourse with a minor.

The preparation of this financial statement requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of revenues and expenses, as well as the disclosure of contingent liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of the statement. A description of the significant accounting policies employed in the preparation of this statement follows:

Statement of Grant Revenues and Expenditures

The statement of grant revenues and expenditures presents the eligible costs charged to the Statutory Rape Vertical Prosecution Program Grant Contract # SR02060360 by the San Bernardino County District Attorney's Office and the revenues received in reimbursement of those costs by OCJP.

Basis of Accounting

Revenues and expenditures are presented on a modified accrual basis. Expenditures are recognized in the accounting period in which they are incurred, that is, when goods are received or services are provided. Revenues are recognized in the accounting period in which reimbursable expenditures are incurred.



POWELL & SPAFFORD, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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**Independent Auditors' Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

To the Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the statement of grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) Statutory Rape Vertical Prosecution Program Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # SR02060360 for the year ended June 30, 2003 and have issued our report thereon dated December 14, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Office's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests, disclosed an instance of noncompliance that is required to be reported herein under *Government Auditing Standards* issued by the Comptroller General of the United States as discussed in the Findings and Questioned Costs Section of this report

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the County's Board of Supervisors, District Attorney's Office management, and the California Office of Criminal Justice Planning, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 14, 2003

**SAN BERNARDINO COUNTY DISTRICT ATTORNEY'S OFFICE
STATUTORY RAPE VERTICAL PROSECUTION PROGRAM
CONTRACT # SR02060360**

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2003**

Findings and Questions Costs for the year ended June 30, 2003:

Finding

During a monitoring visit by OCJP it was discovered that the Office's *Equal Employment Opportunity Policy* and *Harassment or Discrimination in Employment is Prohibited* Posters were not current at one of its sites.

Recommendation/Status

The Office has requested these posters and as of the date of the audit they had not been received. Recommend that the Office follow-up to ensure that current posters are posted.

Status of Prior Year Findings and Questioned Costs:

Summarized Prior Year Finding

District Attorney's Office employees, who are assigned to more than one OCJP grant, are not completing timecards to support the percentage of salaries allocated to multiple grants.

Current Status

The Office eliminated the finding for those employees that are involved in more than one OCJP grant.



POWELL & SPAFFORD, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

MEMBER:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the statement of grant revenues and expenditures of San Bernardino District Attorney's Office (Office) Statutory Rape Vertical Prosecution Program Grant for the year ended June 30, 2003 and have issued our report thereon dated December 14, 2003. Professional standards require that we provide the following information related to our audit:

Our Responsibility Under Auditing Standards Generally Accepted in the United States and Governmental Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statement is free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on the grant program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance.

As part of obtaining reasonable assurance about whether the Office's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with the Statutory Rape Vertical Prosecution Program Grant, we examined, on a test basis, evidence about the Office's compliance with the types of requirements described in the California Office of Criminal Justice Planning's Handbook for the purpose of expressing an opinion on the Office's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Office's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Office are described in Note 1 to the financial statement.

We noted no transactions entered into by the Office as they relate to the Statutory Rape Vertical Prosecution Program Grant during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statement prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statement and because of the possibility that future events affecting them may differ significantly from those expected. Estimates for amounts due from granting agencies, including the State of California are particularly sensitive to estimation in the financial statement.

Significant Audit Adjustments

Significant audit adjustments are required to record those amounts for financial statement reporting purposes that are not recorded on the books and records for the grant. There were no such adjustments for the year ended June 30, 2003.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statement or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Office's financial statement or a determination of the type of auditors' opinion that may be expressed on that statement, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Office's grant auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit ;

We encountered no significant difficulties in dealing with management in performing and completing our audit.

We would like to take this opportunity to express our sincere appreciation to all personnel within the San Bernardino County District Attorney's Office for their cooperation and valuable assistance during the performance of this engagement.

This report is intended solely for the information and use of the County's Board of Supervisors, District Attorney's Office management, and others within County of San Bernardino, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 14, 2003

**SAN BERNARDINO COUNTY
DISTRICT ATTORNEY' OFFICE
VICTIM/WITNESS ASSISTANCE
PROGRAM GRANT
Contract # VW00190360**

**Financial Statement
With
Independent Auditors' Reports
For the Year Ended June 30, 2003**

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POWELL & SPAFFORD, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
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Independent Auditors' Report

To the Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the accompanying statement of grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) Victim/Witness Assistance Program Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # VW00190360 for the year ended June 30, 2003. This statement is the responsibility of the Office's management. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and in accordance with the State of California's Office of Criminal Justice Planning Handbook. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of grant revenues and expenditures was prepared for the purpose of complying with the audit requirements of the State of California's Office of Criminal Justice Planning Handbook as described in Note 1 and is not intended to be a complete presentation of the Office's revenues and expenditures.

In our opinion, the statement referred to above presents fairly, in all material respects, the grant revenues and expenditures of the San Bernardino County District Attorney's Office Victim/Witness Assistance Program Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # VW00190360 for the year ended June 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2003, on our consideration of the Office's internal control and our test of its compliance with certain provisions of laws, regulations, and contract requirements. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the County's Board of Supervisors, District Attorney's Office management and the State of California's Office of Criminal Justice Planning, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

December 15, 2003

**SAN BERNARDINO COUNTY DISTRICT ATTORNEY'S OFFICE
VICTIM/WITNESS ASSISTANCE PROGRAM GRANT**

VW00190360

Statement of Grant Revenues and Expenditures

For the Year Ended June 30, 2003

	<u>Total</u>
Revenues	
Reimbursements received/receivable	\$ 966,813
Expenditures	
Salaries and benefits	877,311
Services and supplies	<u>89,502</u>
Total expenditures	<u>966,813</u>
Excess of expenditures over grant revenues received	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

**SAN BERNARDINO COUNTY DISTRICT ATTORNEY'S OFFICE
VICTIM/WITNESS ASSISTANCE PROGRAM GRANT
CONTRACT # VW00190360**

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies

Description of the Reporting Entity

The statement represents the grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) State of California's Office of Criminal Justice Planning (OCJP) Victim/Witness Assistance Program Grant Contract # VW00190360 for the year ended June 30, 2003. The grant was funded by OCJP and administered by the San Bernardino County District Attorney's Office. The accompanying statement of grant revenues and expenses presents only the activities of the Victim/Witness Assistance Program Grant Contract # VW00190360 and is not intended to present the financial position of the San Bernardino County District Attorney's Office nor the County of San Bernardino itself in conformity with accounting principles generally accepted in the United States of America.

Description of Grant

The grant was extended for a third year in order to continue to advise victims of their rights and to provide needed services such as crisis counseling, advocacy services and referral assistance to agencies serving victims of crime.

The preparation of this financial statement requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of revenues and expenses, as well as the disclosure of contingent liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of the statement. A description of the significant accounting policies employed in the preparation of this statement follows:

Statement of Grant Revenues and Expenditures

The statement of grant revenues and expenditures presents the eligible costs charged to the Victim/Witness Assistance Program Grant Contract # VW00190360 by the San Bernardino County District Attorney's Office and the revenues received in reimbursement of those costs by OCJP.

Basis of Accounting

Revenues and expenditures are presented on a modified accrual basis. Expenditures are recognized in the accounting period in which they are incurred, that is, when goods are received or services are provided. Revenues are recognized in the accounting period in which reimbursable expenditures are incurred.



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**Independent Auditors' Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

To the Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the statement of grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) Victim/Witness Assistance Program Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # VW00190360 for the year ended June 30, 2003 and have issued our report thereon dated December 15, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Office's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests, disclosed an instance of noncompliance that is required to be reported herein under *Government Auditing Standards* issued by the Comptroller General of the United States as discussed in the Findings and Questioned Costs Section of this report

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the County's Board of Supervisors, District Attorney's Office management, and the California Office of Criminal Justice Planning, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 15, 2003

**SAN BERNARDINO COUNTY DISTRICT ATTORNEY'S OFFICE
VICTIM/WITNESS ASSISTANCE PROGRAM GRANT
CONTRACT # VW00190360**

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2003**

Findings and Questions Costs for the year ended June 30, 2003:

Finding

During a monitoring visit by OCJP it was discovered that one advocate employee of the program did not have a signed drug free workplace statement.

Recommendation

We recommend that the Office review all employees' files to ensure that signed drug free workplace statements are in place.

Status of Prior Year Findings and Questioned Costs:

Summarized Prior Year Finding

District Attorney's Office employees, who are assigned to more than one OCJP grant, are not completing timecards to support the percentage of salaries allocated to multiple grants.

Current Status

The Office eliminated the finding for those employees that are involved in more than one OCJP grant.



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MEMBER
AMERICAN INSTITUTE OF
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To the Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the statement of grant revenues and expenditures of San Bernardino District Attorney's Office (Office) Victim/Witness Assistance Program Grant for the year ended June 30, 2003 and have issued our report thereon dated December 15, 2003. Professional standards require that we provide the following information related to our audit:

Our Responsibility Under Auditing Standards Generally Accepted in the United States and Governmental Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statement is free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on the grant program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance.

As part of obtaining reasonable assurance about whether the Office's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with the Victim/Witness Assistance Program Grant, we examined, on a test basis, evidence about the Office's compliance with the types of requirements described in the California Office of Criminal Justice and Planning's Handbook for the purpose of expressing an opinion on the Office's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Office's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Office are described in Note 1 to the financial statement.

We noted no transactions entered into by the Office as they relate to the Victim/Witness Assistance Program Grant during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statement prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statement and because of the possibility that future events affecting them may differ significantly from those expected. Estimates for amounts due from granting agencies, including the State of California are particularly sensitive to estimation in the financial statement.

Significant Audit Adjustments

Significant audit adjustments are required to record those amounts for financial statement reporting purposes that are not recorded on the books and records for the grant. There were no such adjustments for the year ended June 30, 2003.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statement or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Office's financial statement or a determination of the type of auditors' opinion that may be expressed on that statement, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Office's grant auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit ;

We encountered no significant difficulties in dealing with management in performing and completing our audit.

We would like to take this opportunity to express our sincere appreciation to all personnel within the San Bernardino County District Attorney's Office for their cooperation and valuable assistance during the performance of this engagement.

This report is intended solely for the information and use of the County's Board of Supervisors, District Attorney's Office management, and others within County of San Bernardino, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 15, 2003

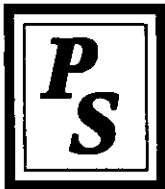
**SAN BERNARDINO COUNTY
DISTRICT ATTORNEY'S OFFICE WORKERS'
COMPENSATION INSURANCE FRAUD PROGRAM**

**Financial Statement
With
Independent Auditors' Reports**

For the Year Ended June 30, 2003

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POWELL & SPAFFORD, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the accompanying statement of grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) Workers Compensation Insurance Fraud Program Grant in accordance with the State of California's Department of Insurance Criminal Investigations Branch Fraud Division Workers' Compensation Insurance Fraud Program Grant Contract for the year ended June 30, 2003. This statement is the responsibility of the Office's management. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and in accordance with the State of California's Department of Insurance Criminal Investigations Branch Fraud Division audit guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of grant revenues and expenditures was prepared for the purpose of complying with the audit requirements of the State of California's Department of Insurance Criminal Investigations Branch Fraud Division as described in Note 1 and is not intended to be a complete presentation of the Office's grant revenues and expenditures.

In our opinion, the statement referred to above presents fairly, in all material respects, the grant revenues and expenditures of the San Bernardino County District Attorney's Office Workers' Compensation Insurance Fraud Program Grant in accordance with the State of California's Department of Insurance Criminal Investigations Branch Fraud Division for the year ended June 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2003, on our consideration of the Office's internal control and our test of its compliance with certain provisions of laws, regulations, and contract requirements. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the County's Board of Supervisors, District Attorney's Office management and the California Department of Insurance Criminal Investigations Branch Fraud Division, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

November 14, 2003

**SAN BERNARDINO COUNTY DISTRICT ATTORNEY'S OFFICE
WORKERS' COMPENSATION INSURANCE FRAUD PROGRAM GRANT**

Statement of Grant Revenues and Expenditures

For the Year Ended June 30, 2003

Revenues

Reimbursements received	<u>\$ 809,719</u>
-------------------------	-------------------

Total revenues	<u>809,719</u>
----------------	----------------

Expenditures

Salaries and benefits	724,220
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Services and supplies	<u>123,348</u>
-----------------------	----------------

Total expenditures	<u>847,568</u>
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Excess of expenditures over grant revenues received	<u>\$ (37,849)</u>
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The accompanying notes are an integral part of this statement.

SAN BERNARDINO COUNTY DISTRICT ATTORNEY OFFICE'S WORKERS' COMPENSATION INSURANCE FRAUD PROGRAM GRANT

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies

Description of the Reporting Entity

The statement represents the grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) Workers' Compensation Insurance Fraud Program Grant for the year ended June 30, 2003. The grant is pursuant to the provisions of California Insurance Code Section 1872.83 and is solely for the purposes of enhancing investigation and prosecution of workers' compensation fraud cases. The grant was funded by the State of California Department of Insurance Criminal Investigations Branch Fraud Division and administered by the San Bernardino County District Attorney's Office. The accompanying statement of grant revenues and expenses present only the activities of the Workers' Compensation Insurance Fraud Program Grant and is not intended to present the financial position of the San Bernardino County District Attorney's Office nor the County of San Bernardino itself in conformity with accounting principles generally accepted in the United States of America.

Description of Grant

The grant funds are issued pursuant to authority granted to the California Insurance Commissioner under the provisions of Section 1872.83 of the California Insurance Code to all local district attorneys for distribution of funding for investigation and prosecution of workers' compensation insurance fraud cases.

The preparation of this financial statement requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of revenues and expenses, as well as the disclosure of contingent liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of the statement. A description of the significant accounting policies employed in the preparation of this statement follows:

Statement of Grant Revenues and Expenditures

The statement of grant revenues and expenditures presents the eligible costs charged to the Workers' Compensation Insurance Fraud Program Grant by the San Bernardino County District Attorney's Office and the revenues received in reimbursement of those costs by the State of California Department of Insurance Criminal Investigations Branch Fraud Division.

Basis of Accounting

Revenues and expenditures are presented on a modified accrual basis. Expenditures are recognized in the accounting period in which they are incurred, that is, when goods are received or services are provided. Revenues are recognized in the accounting period in which reimbursable expenditures are incurred.



POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

MEMBER:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditors' Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

To the Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the statement of grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) Workers' Compensation Insurance Fraud Program in accordance with the State of California's Workers' Compensation Insurance Fraud Program Grant Contract for the year ended June 30, 2003 and have issued our report thereon dated November 14, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Office's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests, disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Supervisors, District Attorney's Office management, and the California Department of Insurance Criminal Investigations Branch Fraud Division, and is not intended to be, and should not be, used by anyone other than these specified parties.

November 14, 2003



POWELL & SPAFFORD, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

MEMBER,
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on State Compliance

To the San Bernardino County Board of Supervisors
San Bernardino County District Attorney's Office

We have audited the statement of grant revenues and expenditures of the San Bernardino County District Attorney's Office (the Office) Workers' Compensation Insurance Fraud Program in accordance with the State of California's Workers' Compensation Insurance Fraud Program Grant Contract for the year ended June 30, 2003 and have issued our report thereon dated November 14, 2003. Our audit was made in accordance with auditing standards generally accepted in the United States of America, the standards for financial audits contained in *Governmental Auditing Standards* issued by the Comptroller General of the United States and Section 1872.83 of the California Insurance Code. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Office's management is responsible for the Office's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the Office's compliance with the state laws and regulations applicable to the following:

- Expenditures were made for the purposes of the program as specified in Section 1872.83 of the Insurance Code, the Regulations, and the guidelines in the Request for Application and the County Plan.

Based on our audit, we found that, for the items tested, the Office complied with the laws and regulations referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Office had not complied with state laws and regulations.

This report is intended solely for the information and use of the Board of Supervisors, District Attorney's Office management, and the California Department of Insurance Criminal Investigations Branch Fraud Division, and is not intended to be, and should not be, used by anyone other than these specified parties.

November 14, 2003



POWELL & SPAFFORD, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

MEMBER:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Supervisors
and the San Bernardino County District Attorney's Office

We have audited the statement of grant revenues and expenditures of San Bernardino District Attorney's Office (Office) Workers' Compensation Insurance Fraud Program Grant for the year ended June 30, 2003 and have issued our report thereon dated November 14, 2003. Professional standards require that we provide the following information related to our audit:

Our Responsibility Under Auditing Standards Generally Accepted in the United States and Governmental Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statement is free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the Office's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on the grant program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance.

As part of obtaining reasonable assurance about whether the Office's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with the State of California's Workers' Compensation Insurance Fraud Program, we examined, on a test basis, evidence about the Office's compliance with the types of requirements described in the State of California's Workers' Compensation Insurance Fraud Program Audit Guide for the purpose of expressing an opinion on the Office's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Office's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Office are described in Note 1 to the financial statement.

We noted no transactions entered into by the Office as they relate to the State of California's Workers' Compensation Insurance Fraud Program during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statement prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statement and because of the possibility that future events affecting them may differ significantly from those expected. Estimates for amounts due from granting agencies, including the State of California are particularly sensitive to estimation in the financial statement.

Significant Audit Adjustments

Significant audit adjustments are required to record those amounts for financial statement reporting purposes that are not recorded on the books and records for the grant. There were no such adjustments for the period ended June 30, 2003.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statement or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Office's financial statement or a determination of the type of auditors' opinion that may be expressed on that statement, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Office's grant auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

We would like to take this opportunity to express our sincere appreciation to all personnel within the San Bernardino County District Attorney's Office for their cooperation and valuable assistance during the performance of this engagement.

This report is intended solely for the information and use of the Board of Supervisors, District Attorney's Office management, and others within County of San Bernardino, and is not intended to be, and should not be, used by anyone other than these specified parties.

November 14, 2003

**SAN BERNARDINO COUNTY
PROBATION DEPARTMENT
JUVENILE ACCOUNTABILITY INCENTIVE
BLOCK GRANT
Contract #IP02010360**

**Financial Statement
With
Independent Auditors' Reports
For the Year Ended June 30, 2003**

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POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

MEMBER
AMERICAN INSTITUTE OF
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Independent Auditors' Report

To the Board of Supervisors
San Bernardino County Probation Department

We have audited the accompanying statement of grant revenues and expenditures of the San Bernardino County Probation Department (the Department) Juvenile Accountability Incentive Block Grant in accordance with the State of California's Office of Criminal Justice Planning Contract #IP02010360 for the year ended June 30, 2003. This statement is the responsibility of the Department's management. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and in accordance with the State of California's Office of Criminal Justice Planning Handbook. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of grant revenues and expenditures was prepared for the purpose of complying with the audit requirements of the State of California's Office of Criminal Justice Planning Handbook as described in Note 1 and is not intended to be a complete presentation of the Department's revenues and expenditures, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the statement referred to above presents fairly, in all material respects, the grant revenues and expenditures of the San Bernardino County Probation Department Juvenile Accountability Incentive Block Grant in accordance with the State of California's Office of Criminal Justice Planning Contract #IP02010360 for the year ended June 30, 2003, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2003, on our consideration of the Department's internal control and our test of its compliance with certain provisions of laws, regulations, and contract requirements. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the County's Board of Supervisors, Probation Department management and the State of California's Office of Criminal Justice Planning, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

December 19, 2003

**SAN BERNARDINO COUNTY PROBATION DEPARTMENT
JUVENILE ACCOUNTABILITY INCENTIVE BLOCK GRANT
CONTRACT # IP02010360**

Statement of Grant Revenues and Expenditures

For the Year Ended June 30, 2003

	<u>Funds Requested</u>	<u>Matching Funds</u>	<u>Total</u>
Revenues			
Reimbursements received/receivable			\$ 557,785
Expenditures			
Salaries and benefits	\$ 523,774	\$ 58,197	581,971
Operating expenses	<u>34,011</u>	<u>3,779</u>	<u>37,790</u>
Total expenditures	<u>557,785</u>	<u>61,976</u>	<u>619,761</u>
Excess of expenditures over grant revenues received - Department cash match			<u>\$ (61,976)</u>

The accompanying notes are an integral part of this statement.

**SAN BERNARDINO COUNTY PROBATION DEPARTMENT
JUVENILE ACCOUNTABILITY INCENTIVE BLOCK GRANT
CONTRACT #IP02010360**

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies

Description of the Reporting Entity

The statement represents the grant revenues and expenditures of the San Bernardino County Probation Department (the Department) State of California's Office of Criminal Justice Planning (OCJP) Juvenile Accountability Incentive Block Grant Contract #IP02010360 for the year ended June 30, 2003. The grant was funded by OCJP and administered by the San Bernardino County Probation Department. The accompanying statement of grant revenues and expenses presents only the activities of the Juvenile Accountability Incentive Block Grant Contract #IP02010360 and is not intended to present the financial position of the San Bernardino County Probation Department nor the County of San Bernardino itself in conformity with accounting principles generally accepted in the United States of America.

Description of Grant

The grant funds were made available to the Probation Department to promote greater accountability of juveniles in the justice system and to hold juvenile offenders accountable for their criminal activities.

The preparation of this financial statement requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of revenues and expenses, as well as the disclosure of contingent liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of the statement. A description of the significant accounting policies employed in the preparation of this statement follows:

Statement of Grant Revenues and Expenditures

The statement of grant revenues and expenditures presents the eligible costs charged to the Juvenile Accountability Incentive Block Grant Contract #IP02010360 by the San Bernardino County Probation Department and the revenues received in reimbursement of those costs by OCJP.

Basis of Accounting

Revenues and expenditures are presented on the basis of accounting as allowed by the OCJP handbook where expenditures are recognized in the accounting period in which they are incurred or encumbered, that is, when goods are received or services are provided or a purchase order for the goods or services has been issued. Revenues are recognized in the accounting period in which reimbursable expenditures are incurred or encumbered.



POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

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**Independent Auditors' Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

To the Board of Supervisors
San Bernardino County Probation Department

We have audited the statement of grant revenues and expenditures of the San Bernardino County Probation Department (the Department) Juvenile Accountability Incentive Block Grant in accordance with the State of California's Office of Criminal Justice Planning Contract #IP02010360 for the year ended June 30, 2003 and have issued our report thereon dated December 19, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests, disclosed an instance of noncompliance that is required to be reported herein under *Government Auditing Standards* issued by the Comptroller General of the United States as discussed in the Findings and Questioned Costs Section of this report.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the County's Board of Supervisors, Probation Department management, and the California Office of Criminal Justice Planning, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 19, 2003

**SAN BERNARDINO COUNTY PROBATION DEPARTMENT
JUVENILE ACCOUNTABILITY INCENTIVE BLOCK GRANT
CONTRACT # IP02010360**

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2003**

Findings and Questions Costs for the Year Ended June 30, 2003:

Finding

It was discovered during the course of the audit that certain expenditures for audit fees were encumbered and submitted on OCJP Form 201 for amounts in excess of amounts actually paid.

Questioned Costs

Audit fees \$1,000

Recommendation

We recommend that the Department submit a corrected OCJP Form 201 to the State of California's Office of Criminal Justice Planning.

Status of Prior Findings and Questioned Costs:

No prior findings.



POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

MEMBER
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CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Supervisors
San Bernardino County Probation Department

We have audited the statement of grant revenues and expenditures of the San Bernardino County Probation Department (the Department) Juvenile Accountability Incentive Block Grant for the year ended June 30, 2003 and have issued our report thereon dated December 19, 2003. Professional standards require that we provide the following information related to our audit:

Our Responsibility Under Auditing Standards Generally Accepted in the United States and Governmental Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statement is free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on the grant program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance.

As part of obtaining reasonable assurance about whether the Department's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with the Juvenile Accountability Incentive Block Grant, we examined, on a test basis, evidence about the Department's compliance with the types of requirements described in the California Office of Criminal Justice Planning Handbook for the purpose of expressing an opinion on the Department's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Department's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Department are described in Note 1 to the financial statement.

We noted no transactions entered into by the Department as they relate to the Juvenile Accountability Incentive Block Grant during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statement prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statement and because of the possibility that future events affecting them may differ significantly from those expected. Estimates for amounts due from granting agencies, including the State of California are particularly sensitive to estimation in the financial statement.

Significant Audit Adjustments

Significant audit adjustments are required to record those amounts for financial statement reporting purposes that are not recorded on the books and records for the grant. There were no such adjustments for the year ended June 30, 2003.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statement or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Department's financial statement or a determination of the type of auditors' opinion that may be expressed on that statement, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Department's grant auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

We would like to take this opportunity to express our sincere appreciation to all personnel within the San Bernardino County Probation Department for their cooperation and valuable assistance during the performance of this engagement.

This report is intended solely for the information and use of the County's Board of Supervisors, Probation Department management, and others within County of San Bernardino, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 19, 2003

**COUNTY OF SAN BERNARDINO
PROBATION DEPARTMENT
JUVENILE CRIME ENFORCEMENT AND
ACCOUNTABILITY CHALLENGE GRANT II**

**Financial Statement
With
Independent Auditors' Reports**

**For the Period
July 1, 1999 through June 30, 2003**

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POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
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MEMBER
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Independent Auditors' Report

To the Board of Supervisors
County of San Bernardino Probation Department

We have audited the accompanying statement of grant revenues and expenditures of the County of San Bernardino Probation Department (the Department) in accordance with the State of California's Board of Corrections' Juvenile Crime Enforcement and Accountability Challenge Grant II Contract No. 136-98 for the period July 1, 1999 through June 30, 2003. This statement is the responsibility of the Department's management. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and in accordance with the State of California's Board of Corrections' Juvenile Crime Enforcement and Accountability Challenge Grant II audit guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of grant revenues and expenditures was prepared for the purpose of complying with the audit requirements of the State of California's Board of Corrections' Juvenile Crime Enforcement and Accountability Challenge Grant II Contract No. 136-98 as described in Note 1 and is not intended to be a complete presentation of the Department's revenues and expenditures.

In our opinion, the statement referred to above presents fairly, in all material respects, the grant revenues and expenditures of the County of San Bernardino Probation Department in accordance with the State of California's Board of Corrections' Juvenile Crime Enforcement and Accountability Challenge Grant II Contract No. 136-98 for the period July 1, 1999 through June 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2003, on our consideration of the Department's internal control and our test of its compliance with certain provisions of laws, regulations, and contract requirements. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the statement of grant revenues and expenditures taken as a whole. The supplementary information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the statement. Such information has been subjected to the auditing procedures applied in the audit of the statement and, in our opinion, is fairly stated, in all material respects, in relation to the statement taken as a whole.

This report is intended solely for the information and use of the County's Board of Supervisors, Probation Department management and the California Board of Corrections, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

October 21, 2003

**COUNTY OF SAN BERNARDINO PROBATION DEPARTMENT
JUVENILE CRIME ENFORCEMENT AND ACCOUNTABILITY
CHALLENGE GRANT II**

Statement of Grant Revenues and Expenditures

For the Period July 1, 1999 Through June 30, 2003

Revenues	
Reimbursements received/receivable	\$ 2,779,196
Grantee matched funds	<u>1,743,530</u>
Total revenues	<u>4,522,726</u>
Expenditures	
Salaries and benefits	3,057,000
Services and supplies	291,580
Professional services	356,072
Community Based Organizations - Contracts	230
Administration Overhead	779,492
Other	2,644
Capital outlay	<u>35,708</u>
Total expenditures	<u>4,522,726</u>
Excess of revenues over expenditures	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

**COUNTY OF SAN BERNARDINO PROBATION DEPARTMENT
JUVENILE CRIME ENFORCEMENT AND
ACCOUNTABILITY CHALLENGE GRANT II**

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies

Description of the Reporting Entity

The statement represents the grant revenues and expenditures of the County of San Bernardino Probation Department's (the Department) Juvenile Crime Enforcement and Accountability Challenge Grant II Contract No. 136-98 for the period July 1, 1999 through June 30, 2003 as part of the Department's Placement Readiness Evaluation Program (PREP). PREP targets difficult-to-place court wards in juvenile hall awaiting out-of-home placement. This 13-bed institutional program was designed to reduce placement failures, time in detention, and recidivism through multidisciplinary assessments, service coordination and treatment to families of minors in pre-placement, placement, and aftercare. It was expected that 306 minors would receive services during the grant period. The grant was funded by the State of California Board of Corrections and administered by the County of San Bernardino's Probation Department. The accompanying statement of revenues and expenses present only the activities of the Juvenile Crime Enforcement and Accountability Challenge Grant II and is not intended to present the financial position of the County of San Bernardino's Probation Department nor the County of San Bernardino itself in conformity with accounting principles generally accepted in the United States of America.

Description of Grant

In 1996, the California Legislature initiated a major effort to reduce juvenile crime by establishing the Juvenile Crime Enforcement and Accountability Challenge Grant program (Challenge Grant I). The enabling legislation for this three-year demonstration program, SB 1760 (Chapter 133, Statutes of 1996), provided \$50 million to help counties identify and implement locally developed strategies for responding to juvenile crime and delinquency. The program targeted at-risk youth and young offenders between the ages of 11 and 17 and typically involves the youths' families, emphasizing the use of multiple interventions based on a thorough evaluation of various need and risk factors.

In 1998, the Legislature amended Challenge Grant I and provided \$60 million in additional funding for a demonstration grant (Chapters 325, 500, and 502, Statutes of 1998). For administrative purposes, this "new" program was called Challenge Grant II.

Matching Fund Requirements

The Department was required to provide at least twenty-five percent (25%) match of the amount of grant funds awarded. To qualify as match, local expenditures were to be for the Juvenile Crime Enforcement and Accountability Challenge Grant II and incurred after July 1, 1999. Match funds could not be derived from the State of California or programs supported by those funds.

The preparation of this financial statement requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of revenues and expenses, as well as the disclosure of contingent liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of the statement. A description of the significant accounting policies employed in the preparation of this statement follows:

1. Summary of Operations and Significant Accounting Policies (Continued)

Statement of Revenues and Expenditures

The statement of revenues and expenditures presents the eligible costs charged to the Juvenile Crime Enforcement and Accountability Challenge Grant II by the County of San Bernardino Probation Department and the revenues received in reimbursement of those costs by the State of California Board of Corrections.

Basis of Accounting

Revenues and expenditures are presented on a modified accrual basis. Expenditures are recognized in the accounting period in which they are incurred, that is, when goods are received or services are provided. Revenues are recognized in the accounting period in which reimbursable expenditures are incurred.

SUPPLEMENTARY INFORMATION

**COUNTY OF SAN BERNARDINO PROBATION DEPARTMENT
JUVENILE CRIME ENFORCEMENT AND ACCOUNTABILITY
CHALLENGE GRANT II**

Schedule of Matching Fund Requirements

For the Period July 1, 1999 Through June 30, 2003

	<u>Budget</u>	<u>Amount</u>	<u>Percent</u>
County of San Bernardino Probation Department			
In-Kind Match			
Salaries and benefits	\$ 12,175	\$ 12,175	0.27%
Professional services	6,966	6,966	0.15%
Administration overhead	<u>560,535</u>	<u>560,535</u>	<u>12.40%</u>
	<u>579,676</u>	<u>579,676</u>	<u>12.82%</u>
Cash Match			
Salaries and benefits	932,801	932,801	20.61%
Services and supplies	197,084	197,084	4.36%
Professional services	12,464	12,464	0.28%
Administration overhead	<u>21,505</u>	<u>21,505</u>	<u>0.48%</u>
	<u>1,163,854</u>	<u>1,163,854</u>	<u>25.73%</u>
Total matching funds	<u>1,743,530</u>	<u>1,743,530</u>	<u>38.55%</u>
State of California			
Total state funds	<u>2,779,196</u>	<u>2,779,196</u>	<u>61.45%</u>
Total Costs	<u>\$ 4,522,726</u>	<u>\$ 4,522,726</u>	<u>100.00%</u>

**COUNTY OF SAN BERNARDINO PROBATION DEPARTMENT
JUVENILE CRIME ENFORCEMENT AND ACCOUNTABILITY
CHALLENGE GRANT II**

Schedule of Eligible Costs, Budget to Actual

For the Period July 1, 1999 Through June 30, 2003

Budget Line Item	<u>Budget</u>	<u>Expenditures</u>	<u>(Over)/Under</u>
Salaries and benefits	\$ 3,057,000	\$ 3,057,000	\$ -
Services and supplies	291,580	291,580	-
Professional services	356,072	356,072	-
Community Based Organizations - Contracts	230	230	-
Administration Overhead	779,492	779,492	-
Other	2,644	2,644	-
Capital outlay	<u>35,708</u>	<u>35,708</u>	<u>-</u>
Totals	<u>\$ 4,522,726</u>	<u>\$ 4,522,726</u>	<u>\$ -</u>

**COUNTY SAN BERNARDINO PROBATION DEPARTMENT
JUVENILE CRIME ENFORCEMENT AND ACCOUNTABILITY
CHALLENGE GRANT II**

Schedule of Eligible Costs

For the Period July 1, 1999 Through June 30, 2003

Budget Line Item	Costs Claimed For			
	State Costs Claimed	Cash Match	In-Kind Match	Total
Salaries and benefits	\$ 2,112,024	\$ 932,801	\$ 12,175	\$ 3,057,000
Services and supplies	94,496	197,084		291,580
Professional services	336,642	12,464	6,966	356,072
Community Based Organizations - Contracts	230			230
Administration Overhead	197,452	21,505	560,535	779,492
Other	2,644			2,644
Capital outlay	35,708	-	-	35,708
Totals	\$ 2,779,196	\$ 1,163,854	\$ 579,676	\$ 4,522,726

**COUNTY SAN BERNARDINO PROBATION DEPARTMENT
JUVENILE CRIME ENFORCEMENT AND ACCOUNTABILITY
CHALLENGE GRANT II**

Schedule of Disallowed Costs

For the Period July 1, 1999 Through June 30, 2003

Budget Line Item	Total Costs <u>Claimed</u>	Costs <u>Accepted</u>	Recommended <u>Disallowances</u>
Salaries and benefits	\$ 2,112,024	\$ 2,112,024	\$ -
Services and supplies	94,496	94,496	-
Professional services	336,642	336,642	-
Community Based Organizations - Contracts	230	230	-
Administration Overhead	197,452	197,452	-
Other	2,644	2,644	-
Capital outlay	<u>35,708</u>	<u>35,708</u>	<u>-</u>
Totals	<u>\$ 2,779,196</u>	<u>\$ 2,779,196</u>	<u>\$ -</u>



POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

MEMBER
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**Independent Auditors' Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

To the Board of Supervisors
County of San Bernardino Probation Department

We have audited the statement of grant revenues and expenditures of the County of San Bernardino Probation Department (the Department) in accordance with the State of California's Board of Corrections' Juvenile Crime Enforcement and Accountability Challenge Grant II Contract No. 136-98 for the period July 1, 1999 through June 30, 2003 and have issued our report thereon dated October 21, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

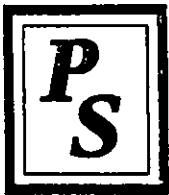
As part of obtaining reasonable assurance about whether the County of San Bernardino Probation Department financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted a matter involving the internal control over financial reporting that we have reported to management of the Department in a separate letter dated October 21, 2003.

This report is intended solely for the information and use of the Board of Supervisors, Probation Department management, and the California Board of Corrections, and is not intended to be, and should not be, used by anyone other than these specified parties.

October 21, 2003



POWELL & SPAFFORD, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

MEMBER
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To the Board of Supervisors
and Department of Probation Management

We have audited the statement of grant revenues and expenditures of County of San Bernardino Probation Department's (Department) Juvenile Crime Enforcement and Accountability Challenge Grant II for the period from July 1, 1999 through June 30, 2003 and have issued our report thereon dated October 21, 2003. Professional standards require that we provide the following information related to our audit:

Our Responsibility Under Auditing Standards Generally Accepted in the United States and Governmental Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statement is free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on the grant program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance.

As part of obtaining reasonable assurance about whether the Department's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with the State of California Board of Corrections' Juvenile Crime Enforcement and Accountability Challenge Grant II Contract No. 136-98, we examined, on a test basis, evidence about the Department's compliance with the types of requirements described in the State of California Board of Corrections' Juvenile Crime Enforcement and Accountability Challenge Grant II Audit Guide for the purpose of expressing an opinion on the Department's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Department's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Department are described in Note 1 to the financial statements.

We noted no transactions entered into by the Department as they relate to the State of California Board of Corrections' Juvenile Crime Enforcement and Accountability Challenge Grant II during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statement prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statement and because of the possibility that future events affecting them may differ significantly from those expected. Estimates for amounts due from granting agencies, including the State of California are particularly sensitive to estimation in the financial statement.

Significant Audit Adjustments

Significant audit adjustments are required to record those amounts for financial statement reporting purposes that are not recorded on the books and records for the grant. There were no such adjustments for the period ended June 30, 2003.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statement or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Department's financial statement or a determination of the type of auditors' opinion that may be expressed on that statement, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Department's grant auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit :

We encountered no significant difficulties in dealing with management in performing and completing our audit.

We would like to take this opportunity to express our sincere appreciation to all personnel within the County of San Bernardino Probation Department for their cooperation and valuable assistance during the performance of this engagement.

Other Matters

During our audit, we became aware of the following matter that is an opportunity for strengthening internal controls and operating efficiency for Department administration of grants:

Finding

We discovered that the last two required reports for the State of California's Board of Corrections' Juvenile Crime Enforcement and Accountability Challenge Grant II were not submitted in a timely manner and were not available for our review at the time of the audit, as a result of significant turnover in management personnel.

Recommendation

We recommend that the Department implement procedures to ensure that when key employees retire grant administration be assigned to specific staff to ensure that grant requirements are not overlooked.

This report is intended solely for the information and use of the Board of Supervisors, Probation Department management, and others within County of San Bernardino, and is not intended to be, and should not be, used by anyone other than these specified parties.

October 21, 2003

↑
These late reports were
not financial reports.
They were statistical
program reports.
There was a quick
turnover in Directors
after the retirement of
the original Director.

**SAN BERNARDINO COUNTY
SHERIFF'S DEPARTMENT
CAREER CRIMINAL APPREHENSION
STATE-OF-THE-ART PROGRAM GRANT
Contract #CA00010360**

**Financial Statement
With
Independent Auditors' Reports**

For the Period Ended October 31, 2002

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Independent Auditors' Report

To the Board of Supervisors
San Bernardino County Sheriff's Department

We have audited the accompanying statement of grant revenues and expenditures of the San Bernardino County Sheriff's Department (the Department) Career Criminal Apprehension State-of-the-Art Program Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # CA00010360 for the period ended October 31, 2002. This statement is the responsibility of the Department's management. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and in accordance with the State of California's Office of Criminal Justice Planning Handbook. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of grant revenues and expenditures was prepared for the purpose of complying with the audit requirements of the State of California's Office of Criminal Justice Planning Handbook as described in Note 1 and is not intended to be a complete presentation of the Department's revenues and expenditures, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the statement referred to above presents fairly, in all material respects, the grant revenues and expenditures of the San Bernardino County Sheriff's Department Career Criminal Apprehension State-of-the-Art Program Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # CA00010360 for the period ended October 31, 2002, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2003, on our consideration of the Department's internal control and our test of its compliance with certain provisions of laws, regulations, and contract requirements. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit and is not intended to present the financial position of the San Bernardino County Sheriff's Department nor the County of San Bernardino itself in conformity with accounting principles generally accepted in the United States of America.

This report is intended solely for the information and use of the County's Board of Supervisors, Sheriff's Department management and the State of California's Office of Criminal Justice Planning, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

December 18, 2003

**SAN BERNARDINO COUNTY SHERIFF'S DEPARTMENT
CAREER CRIMINAL APPREHENSION STATE-OF-THE-ART PROGRAM GRANT
CONTRACT # CA00010360**

Statement of Grant Revenues and Expenditures

For the Period June 16, 2002 Through October 31, 2002

Revenues

Reimbursements received/receivable	\$ 144,962
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Expenditures

Salaries and benefits	35,611
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Services and supplies	1,500
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Equipment	<u>107,851</u>
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Total expenditures	<u>144,962</u>
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Excess of expenditures over grant revenues received	<u>\$ -</u>
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The accompanying notes are an integral part of this statement.

**SAN BERNARDINO COUNTY SHERIFF'S DEPARTMENT
CAREER CRIMINAL APPREHENSION STATE-OF-THE-ART PROGRAM GRANT
CONTRACT #CA00010360**

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies

Description of the Reporting Entity

The statement represents the grant revenues and expenditures of the San Bernardino County Sheriff's Department (the Department) State of California's Office of Criminal Justice Planning (OCJP) Career Criminal Apprehension State-of-the-Art Program Grant Contract #CA00010360 for the period ended October 31, 2002. The grant was funded by OCJP and administered by the San Bernardino County Sheriff's Department. The accompanying statement of grant revenues and expenditures presents only the activities of the Career Criminal Apprehension State-of-the-Art Program Grant Contract #CA00010360 and is not intended to present the financial position of the San Bernardino County Sheriff's Department nor the County of San Bernardino itself in conformity with accounting principles generally accepted in the United States of America.

Description of Grant

The grant funds were made available to the Sheriff's Department to continue a regional approach to crime analysis by linking additional jurisdictions in the Sheriff's Department to dedicated crime analysts.

The preparation of this financial statement requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of revenues and expenses, as well as the disclosure of contingent liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of the statement. A description of the significant accounting policies employed in the preparation of this statement follows:

Statement of Grant Revenues and Expenditures

The statement of grant revenues and expenditures presents the eligible costs charged to the Career Criminal Apprehension State-of-the-Art Program Grant Contract #CA00010360 by the San Bernardino County Sheriff's Department and the revenues received in reimbursement of those costs by OCJP.

Basis of Accounting

Revenues and expenditures are presented on the basis of accounting as allowed by the OCJP handbook where expenditures are recognized in the accounting period in which they are incurred or encumbered, that is, when goods are received or services are provided or a purchase order for the goods or services has been issued. Revenues are recognized in the accounting period in which reimbursable expenditures are incurred or encumbered.



POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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**Independent Auditors' Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

To the Board of Supervisors
San Bernardino County Sheriff's Department

We have audited the statement of grant revenues and expenditures of the San Bernardino County Sheriff's Department (the Department) Career Criminal Apprehension State-of-the-Art Program Grant in accordance with the State of California's Office of Criminal Justice Planning Contract #CA00010360 for the period ended October 31, 2002 and have issued our report thereon dated December 18, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests, disclosed an instance of noncompliance that is required to be reported herein under *Government Auditing Standards* issued by the Comptroller General of the United States as discussed in the Findings and Questioned Costs Section of this report.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the County's Board of Supervisors, Sheriff's Department management, and the California Office of Criminal Justice Planning, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 18, 2003

**SAN BERNARDINO COUNTY SHERIFF'S DEPARTMENT
CAREER CRIMINAL APPREHENSION STATE-OF-THE-ART PROGRAM GRANT
CONTRACT #CA00010360**

**Schedule of Findings and Questioned Costs
For the Year Ended October 31, 2003**

Findings and Questions Costs for the Period Ended October 31, 2002:

Finding

It was discovered during the course of the audit that certain expenditures for audit fees and equipment were encumbered and submitted on OCJP Form 201 for amounts in excess of amounts actually paid.

Questioned Costs

Audit fees \$ 472
Equipment \$14,584

Recommendation

We recommend that the Department submit a corrected OCJP Form 201 to the State of California's Office of Criminal Justice Planning.

Status of Prior Findings and Questioned Costs:

No prior findings.



POWELL & SPAFFORD, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Supervisors
San Bernardino County Sheriff's Department

We have audited the statement of grant revenues and expenditures of San Bernardino County Sheriff's Department (the Department) Career Criminal Apprehension State-of-the-Art Program Grant for the period ended October 31, 2002 and have issued our report thereon dated December 18, 2003. Professional standards require that we provide the following information related to our audit:

Our Responsibility Under Auditing Standards Generally Accepted in the United States and Governmental Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statement is free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on the grant program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance.

As part of obtaining reasonable assurance about whether the Department's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with the Career Criminal Apprehension State-of-the-Art Program Grant, we examined, on a test basis, evidence about the Department's compliance with the types of requirements described in the California Office of Criminal Justice Planning Handbook for the purpose of expressing an opinion on the Department's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Department's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Department are described in Note 1 to the financial statement.

We noted no transactions entered into by the Department as they relate to the Career Criminal Apprehension State-of-the-Art Program Grant during the period that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statement prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statement and because of the possibility that future events affecting them may differ significantly from those expected. Estimates for amounts due from granting agencies, including the State of California are particularly sensitive to estimation in the financial statement.

Significant Audit Adjustments

Significant audit adjustments are required to record those amounts for financial statement reporting purposes that are not recorded on the books and records for the grant. There were no such adjustments for the period ended October 31, 2002.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statement or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Department's financial statement or a determination of the type of auditors' opinion that may be expressed on that statement, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as the Department's grant auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit ;

We encountered no significant difficulties in dealing with management in performing and completing our audit.

We would like to take this opportunity to express our sincere appreciation to all personnel within the San Bernardino County Sheriff's Department for their cooperation and valuable assistance during the performance of this engagement.

This report is intended solely for the information and use of the County's Board of Supervisors, Sheriff's Department management, and others within County of San Bernardino, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 18, 2003

**SAN BERNARDINO COUNTY
SHERIFF'S DEPARTMENT
DNA COLD HIT PROGRAM GRANT
Contract # CG00010360**

**Financial Statement
With
Independent Auditors' Reports**

For the Year Ended September 30, 2003

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POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

MEMBER
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Supervisors
San Bernardino County Sheriff's Department

We have audited the accompanying statement of grant revenues and expenditures of the San Bernardino County Sheriff's Department (the Department) DNA Cold Hit Program Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # CG00010360 for the year ended September 30, 2003. This statement is the responsibility of the Department's management. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and in accordance with the State of California's Office of Criminal Justice Planning Handbook. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of grant revenues and expenditures was prepared for the purpose of complying with the audit requirements of the State of California's Office of Criminal Justice Planning Handbook as described in Note 1 and is not intended to be a complete presentation of the Department's revenues and expenditures.

In our opinion, the statement referred to above presents fairly, in all material respects, the grant revenues and expenditures of the San Bernardino County Sheriff's Department DNA Cold Hit Program Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # CG00010360 for the year ended September 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2003, on our consideration of the Department's internal control and our test of its compliance with certain provisions of laws, regulations, and contract requirements. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the County's Board of Supervisors, Sheriff's Department management and the State of California's Office of Criminal Justice Planning, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

December 17, 2003

SAN BERNARDINO COUNTY SHERIFF'S DEPARTMENT
DNA COLD HIT PROGRAM GRANT
CONTRACT # CG00010360
Statement of Grant Revenues and Expenditures

For the Year Ended September 30, 2003

Revenues

Reimbursements received/receivable	<u>\$ 85,226</u>
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Expenditures

Salaries and benefits	67,129
Services and supplies	13,797
Equipment	<u>4,300</u>

Total expenditures	<u>85,226</u>
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Excess of expenditures over grant revenues received - Department cash match	<u>\$ -</u>
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The accompanying notes are an integral part of this statement.

**SAN BERNARDINO COUNTY SHERIFF'S DEPARTMENT
DNA COLD HIT PROGRAM GRANT
CONTRACT # CG00010360**

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies

Description of the Reporting Entity

The statement represents the grant revenues and expenditures of the San Bernardino County Sheriff's Department (the Department) State of California's Office of Criminal Justice Planning (OCJP) DNA Cold Hit Program Grant Contract # CG00010360 for the year ended September 30, 2003. The grant was funded by OCJP and administered by the San Bernardino County Sheriff's Department. The accompanying statement of grant revenues and expenditures presents only the activities of the DNA Cold Hit Program Grant Contract # CG00010360 and is not intended to present the financial position of the San Bernardino County Sheriff's Department nor the County of San Bernardino itself in conformity with accounting principles generally accepted in the United States of America.

Description of Grant

The grant funds were made available to the Sheriff's Department to reimburse public crime laboratories for the cost of DNA analysis, and to enter this DNA evidence from unsolved or "suspectless" sexual assault cases into a database to be searched against the Convicted Offender DNA Data Bank and against other case profiles to determine if any sample matches exist.

The preparation of this financial statement requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of revenues and expenses, as well as the disclosure of contingent liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of the statement. A description of the significant accounting policies employed in the preparation of this statement follows:

Statement of Grant Revenues and Expenditures

The statement of grant revenues and expenditures presents the eligible costs charged to the DNA Cold Hit Program Grant Contract # CG00010360 by the San Bernardino County Sheriff's Department and the revenues received in reimbursement of those costs by OCJP.

Basis of Accounting

Revenues and expenditures are presented on a modified accrual basis. Expenditures are recognized in the accounting period in which they are incurred, that is, when goods are received or services are provided. Revenues are recognized in the accounting period in which reimbursable expenditures are incurred.



POWELL & SPAFFORD, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

MEMBER:
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**Independent Auditors' Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

To the Board of Supervisors
San Bernardino County Sheriff's Department

We have audited the statement of grant revenues and expenditures of the San Bernardino County Sheriff's Department (the Department) DNA Cold Hit Program Grant Contract in accordance with the State of California's Office of Criminal Justice Planning Contract # CG00010360 for the year ended September 30, 2003 and have issued our report thereon dated December 17, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests, disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the County's Board of Supervisors, Sheriff's Department management, and the California Office of Criminal Justice Planning, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 17, 2003

**SAN BERNARDINO COUNTY SHERIFF'S DEPARTMENT
DNA COLD HIT PROGRAM GRANT
CONTRACT # CG00010360**

**Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2003**

Findings and Questions Costs for the Year Ended September 30, 2003: .

No findings to be reported.

Status of Prior Findings and Questioned Costs:

No prior findings



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To the Board of Supervisors
San Bernardino County Sheriff's Department

We have audited the statement of grant revenues and expenditures of San Bernardino County Sheriff's Department (the Department) DNA Cold Hit Program Grant for the year ended September 30, 2003 and have issued our report thereon dated December 18, 2003. Professional standards require that we provide the following information related to our audit:

Our Responsibility Under Auditing Standards Generally Accepted in the United States and Governmental Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statement is free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on the grant program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance.

As part of obtaining reasonable assurance about whether the Department's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with the DNA Cold Hit Program Grant, we examined, on a test basis, evidence about the Department's compliance with the types of requirements described in the California Office of Criminal Justice Planning Handbook for the purpose of expressing an opinion on the Department's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Department's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Department are described in Note 1 to the financial statement.

We noted no transactions entered into by the Department as they relate to the DNA Cold Hit Program Grant during the year months that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statement prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statement and because of the possibility that future events affecting them may differ significantly from those expected. Estimates for amounts due from granting agencies, including the State of California are particularly sensitive to estimation in the financial statement.

Significant Audit Adjustments

Significant audit adjustments are required to record those amounts for financial statement reporting purposes that are not recorded on the books and records for the grant. There were no such adjustments for the year ended September 30, 2003.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statement or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Department's financial statement or a determination of the type of auditors' opinion that may be expressed on that statement, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year months prior to retention as the Department's grant auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

We would like to take this opportunity to express our sincere appreciation to all personnel within the San Bernardino County Sheriff's Department for their cooperation and valuable assistance during the performance of this engagement.

This report is intended solely for the information and use of the County's Board of Supervisors, Sheriff's Department management, and others within County of San Bernardino, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 18, 2003

**SAN BERNARDINO COUNTY
SHERIFF'S DEPARTMENT
DRUG ENDANGERED
CHILDREN PROJECT GRANT
Contract # DG01040360**

**Financial Statement
With
Independent Auditors' Reports**

For the Eighteen Months Ended June 30, 2003

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POWELL & SPAFFORD, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

MEMBER
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Independent Auditors' Report

To the Board of Supervisors
San Bernardino County Sheriff's Department

We have audited the accompanying statement of grant revenues and expenditures of the San Bernardino County Sheriff's Department (the Department) Drug Endangered Children Project Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # DG01040360 for the eighteen months ended June 30, 2003. This statement is the responsibility of the Department's management. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and in accordance with the State of California's Office of Criminal Justice Planning Handbook. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of grant revenues and expenditures was prepared for the purpose of complying with the audit requirements of the State of California's Office of Criminal Justice Planning Handbook as described in Note 1 and is not intended to be a complete presentation of the Department's revenues and expenditures.

In our opinion, the statement referred to above presents fairly, in all material respects, the grant revenues and expenditures of the San Bernardino County Sheriff's Department Drug Endangered Children Project Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # DG01040360 for the eighteen months ended June 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2003, on our consideration of the Department's internal control and our test of its compliance with certain provisions of laws, regulations, and contract requirements. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the County's Board of Supervisors, Sheriff's Department management and the State of California's Office of Criminal Justice Planning, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

December 12, 2003

**SAN BERNARDINO COUNTY SHERIFF'S DEPARTMENT
DRUG ENDANGERED CHILDREN PROJECT GRANT
CONTRACT # DG01040360**

Statement of Grant Revenues and Expenditures

For the Eighteen Months Ended June 30, 2003

Revenues

Reimbursements received/receivable	<u>\$ 173,465</u>
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Expenditures

Salaries and benefits	8,736
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Services and supplies	104,511
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Equipment	<u>60,218</u>
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Total expenditures	<u>173,465</u>
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Excess of expenditures over grant revenues received	<u>\$ -</u>
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The accompanying notes are an integral part of this statement.

**SAN BERNARDINO COUNTY SHERIFF'S DEPARTMENT
DRUG ENDANGERED CHILDREN PROJECT GRANT
CONTRACT # DG01040360**

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies

Description of the Reporting Entity

The statement represents the grant revenues and expenditures of the San Bernardino County Sheriff's Department (the Department) State of California's Office of Criminal Justice Planning (OCJP) Drug Endangered Children Project Grant Contract # DG01040360 for the eighteen months ended June 30, 2003. The grant was funded by OCJP and administered by the San Bernardino County Sheriff's Department. The accompanying statement of grant revenues and expenses presents only the activities of the Drug Endangered Children Project Grant Contract # DG01040360 and is not intended to present the financial position of the San Bernardino County Sheriff's Department nor the County of San Bernardino itself in conformity with accounting principles generally accepted in the United States of America.

Description of Grant

The grant funds were made available to the Sheriff's Department to provide a coordinated assessment of children at clandestine drug lab sites between several departments within San Bernardino County, including the District Attorney's Office, Department of Children's Services and the Department Public Health through the San Bernardino County Children's Network.

The preparation of this financial statement requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of revenues and expenses, as well as the disclosure of contingent liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of the statement. A description of the significant accounting policies employed in the preparation of this statement follows:

Statement of Grant Revenues and Expenditures

The statement of grant revenues and expenditures presents the eligible costs charged to the Drug Endangered Children Project Grant Contract # DG01040360 by the San Bernardino County Sheriff's Department and other departments within the County and the revenues received in reimbursement of those costs by OCJP.

Basis of Accounting

Revenues and expenditures are presented on a modified accrual basis. Expenditures are recognized in the accounting period in which they are incurred, that is, when goods are received or services are provided. Revenues are recognized in the accounting period in which reimbursable expenditures are incurred.



POWELL & SPAFFORD, LLP
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**Independent Auditors' Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

To the Board of Supervisors
San Bernardino County Sheriff's Department

We have audited the statement of grant revenues and expenditures of the San Bernardino County Sheriff's Department (the Department) Drug Endangered Children Project Grant Contract in accordance with the State of California's Office of Criminal Justice Planning Contract # DG01040360 for the eighteen months ended June 30, 2003 and have issued our report thereon dated December 12, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests, disclosed an instance of noncompliance that is required to be reported herein under *Government Auditing Standards* issued by the Comptroller General of the United States as discussed in the Findings and Questioned Costs Section of this report

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the County's Board of Supervisors, Sheriff's Department management, and the California Office of Criminal Justice Planning, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 12, 2003

**SAN BERNARDINO COUNTY SHERIFF'S DEPARTMENT
DRUG ENDANGERED CHILDREN PROJECT GRANT
CONTRACT # DG01040360**

**Schedule of Findings and Questioned Costs
For the Eighteen Months Ended June 30, 2003**

Findings and Questions Costs for the Eighteen Months Ended June 30, 2003:

Finding

The Department through the District Attorney's Office incorrectly reported laser printers under operating expenses on OCJP Form-201. Laser printers are considered equipment for grant reporting purposes and should have been budgeted as such.

Questioned Costs

Laser printers for \$17,978

Recommendation

We recommend that the District Attorney's Office carefully review the OCJP grantee handbook when preparing grant budgets, especially in the area of supplies versus equipment purchases.

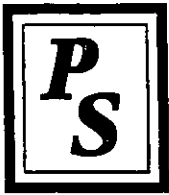
Status of Prior Year Findings and Questioned Costs:

Summarized Prior Year Finding

District Attorney Office employees, who are assigned to more than one OCJP grant, are not completing timecards to support the percentage of salaries allocated to multiple grants.

Current Status

The District Attorney Office eliminated the finding for those employees that are involved in more than one OCJP grant.



POWELL & SPAFFORD, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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MEMBER
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To the Board of Supervisors
San Bernardino County Sheriff's Department

We have audited the statement of grant revenues and expenditures of San Bernardino County Sheriff's Department (the Department) Drug Endangered Children Project Grant for the eighteen months ended June 30, 2003 and have issued our report thereon dated December 12, 2003. Professional standards require that we provide the following information related to our audit:

Our Responsibility Under Auditing Standards Generally Accepted in the United States and Governmental Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statement is free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on the grant program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance.

As part of obtaining reasonable assurance about whether the Department's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with the Drug Endangered Children Project Grant, we examined, on a test basis, evidence about the Department's compliance with the types of requirements described in the California Office of Criminal Justice Planning Handbook for the purpose of expressing an opinion on the Department's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Department's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Department are described in Note 1 to the financial statement.

We noted no transactions entered into by the Department as they relate to the Drug Endangered Children Project Grant during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statement prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statement and because of the possibility that future events affecting them may differ significantly from those expected. Estimates for amounts due from granting agencies, including the State of California are particularly sensitive to estimation in the financial statement.

Significant Audit Adjustments

Significant audit adjustments are required to record those amounts for financial statement reporting purposes that are not recorded on the books and records for the grant. There were no such adjustments for the period ended June 30, 2003.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statement or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Department's financial statement or a determination of the type of auditors' opinion that may be expressed on that statement, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Department's grant auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

We would like to take this opportunity to express our sincere appreciation to all personnel within the San Bernardino County Sheriff's Department for their cooperation and valuable assistance during the performance of this engagement.

This report is intended solely for the information and use of the County's Board of Supervisors, Sheriff's Department management, and others within County of San Bernardino, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 12, 2003

**SAN BERNARDINO COUNTY
SHERIFF'S DEPARTMENT
MARIJUANA SUPPRESSION PROGRAM GRANT
Contract # MS02070360**

**Financial Statement
With
Independent Auditors' Reports
For the Year Ended June 30, 2003**

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POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

MEMBER
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CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Supervisors
San Bernardino County Sheriff's Department

We have audited the accompanying statement of grant revenues and expenditures of the San Bernardino County Sheriff's Department (the Department) Marijuana Suppression Program Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # MS02070360 for the year ended June 30, 2003. This statement is the responsibility of the Department's management. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and in accordance with the State of California's Office of Criminal Justice Planning Handbook. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of grant revenues and expenditures was prepared for the purpose of complying with the audit requirements of the State of California's Office of Criminal Justice Planning Handbook as described in Note 1 and is not intended to be a complete presentation of the Department's revenues and expenditures.

In our opinion, the statement referred to above presents fairly, in all material respects, the grant revenues and expenditures of the San Bernardino County Sheriff's Department Marijuana Suppression Program Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # MS02070360 for the year ended June 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2003, on our consideration of the Department's internal control and our test of its compliance with certain provisions of laws, regulations, and contract requirements. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the County's Board of Supervisors, Sheriff's Department management and the State of California's Office of Criminal Justice Planning, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

December 18, 2003

**SAN BERNARDINO COUNTY SHERIFF'S DEPARTMENT
MARIJUANA SUPPRESSION PROGRAM GRANT
CONTRACT # MS02070360**

Statement of Grant Revenues and Expenditures

For the Year Ended June 30, 2003

Revenues

Reimbursements received/receivable	\$ 250,000
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Expenditures

Salaries and benefits	241,323
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Services and supplies	<u>8,677</u>
-----------------------	--------------

Total expenditures	<u>250,000</u>
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Excess of expenditures over grant revenues received	<u>\$ -</u>
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The accompanying notes are an integral part of this statement.

**SAN BERNARDINO COUNTY SHERIFF'S DEPARTMENT
MARIJUANA SUPPRESSION PROGRAM GRANT
CONTRACT # MS02070360**

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies

Description of the Reporting Entity

The statement represents the grant revenues and expenditures of the San Bernardino County Sheriff's Department (the Department) State of California's Office of Criminal Justice Planning (OCJP) Marijuana Suppression Program Grant Contract # MS02070360 for the year ended June 30, 2003. The grant was funded by OCJP and administered by the San Bernardino County Sheriff's Department. The accompanying statement of grant revenues and expenditures presents only the activities of the Marijuana Suppression Program Grant Contract # MS02070360 and is not intended to present the financial position of the San Bernardino County Sheriff's Department nor the County of San Bernardino itself in conformity with accounting principles generally accepted in the United States of America.

Description of Grant

The grant funds were made available to the Sheriff's Department to provide for the suppression and eradication of marijuana cultivations in conjunction with the District Attorney's Office for prosecution of traffickers.

The preparation of this financial statement requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of revenues and expenses, as well as the disclosure of contingent liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of the statement. A description of the significant accounting policies employed in the preparation of this statement follows:

Statement of Grant Revenues and Expenditures

The statement of grant revenues and expenditures presents the eligible costs charged to the Marijuana Suppression Program Grant Contract # MS02070360 by the San Bernardino County Sheriff's Department and the District Attorney's Office and the revenues received in reimbursement of those costs by OCJP.

Basis of Accounting

Revenues and expenditures are presented on a modified accrual basis. Expenditures are recognized in the accounting period in which they are incurred, that is, when goods are received or services are provided. Revenues are recognized in the accounting period in which reimbursable expenditures are incurred.



POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

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**Independent Auditors' Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

To the Board of Supervisors
San Bernardino County Sheriff's Department

We have audited the statement of grant revenues and expenditures of the San Bernardino County Sheriff's Department (the Department) Marijuana Suppression Program Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # MS02070360 for the year ended June 30, 2003 and have issued our report thereon dated December 18, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests, disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the County's Board of Supervisors, Sheriff's Department management, and the California Office of Criminal Justice Planning, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 18, 2003

**SAN BERNARDINO COUNTY SHERIFF'S DEPARTMENT
MARIJUANA SUPPRESSION PROGRAM GRANT
CONTRACT # MS02070360**

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2003**

Findings and Questions Costs for the Year Ended June 30, 2003:

No findings to be reported.

Status of Prior Findings and Questioned Costs:

No prior findings.



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To the Board of Supervisors
San Bernardino County Sheriff's Department

We have audited the statement of grant revenues and expenditures of San Bernardino County Sheriff's Department (the Department) Marijuana Suppression Program Grant for the year ended June 30, 2003 and have issued our report thereon dated December 18, 2003. Professional standards require that we provide the following information related to our audit:

Our Responsibility Under Auditing Standards Generally Accepted in the United States and Governmental Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statement is free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on the grant program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance.

As part of obtaining reasonable assurance about whether the Department's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with the Marijuana Suppression Program Grant, we examined, on a test basis, evidence about the Department's compliance with the types of requirements described in the State of California's Office of Criminal Justice Planning Handbook for the purpose of expressing an opinion on the Department's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Department's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Department are described in Note 1 to the financial statement.

We noted no transactions entered into by the Department as they relate to the Marijuana Suppression Program Grant during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statement prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statement and because of the possibility that future events affecting them may differ significantly from those expected. Estimates for amounts due from granting agencies, including the State of California are particularly sensitive to estimation in the financial statement.

Significant Audit Adjustments

Significant audit adjustments are required to record those amounts for financial statement reporting purposes that are not recorded on the books and records for the grant. There were no such adjustments for the year ended June 30, 2003.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statement or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Department's financial statement or a determination of the type of auditors' opinion that may be expressed on that statement, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Department's grant auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

We would like to take this opportunity to express our sincere appreciation to all personnel within the San Bernardino County Sheriff's Department for their cooperation and valuable assistance during the performance of this engagement.

This report is intended solely for the information and use of the County's Board of Supervisors, Sheriff's Department management, and others within County of San Bernardino, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 18, 2003

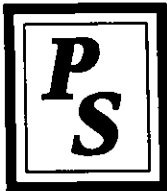
**SAN BERNARDINO COUNTY
SHERIFF'S DEPARTMENT
OPERATION CLEANSWEEP PROGRAM GRANT
Contract # IP02A10360**

**Financial Statement
With
Independent Auditors' Reports**

For the Eleven Months Ended September 30, 2003

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POWELL & SPAFFORD, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Jessie C. Powell, CPA
Patrick D. Spafford, CPA

MEMBER
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Independent Auditors' Report

To the Board of Supervisors
San Bernardino County Sheriff's Department

We have audited the accompanying statement of grant revenues and expenditures of the San Bernardino County Sheriff's Department (the Department) Operation CleanSWEEP Program Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # IP02A10360 for the eleven months ended September 30, 2003. This statement is the responsibility of the Department's management. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and in accordance with the State of California's Office of Criminal Justice Planning Handbook. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of grant revenues and expenditures was prepared for the purpose of complying with the audit requirements of the State of California's Office of Criminal Justice Planning Handbook as described in Note 1 and is not intended to be a complete presentation of the Department's revenues and expenditures.

In our opinion, the statement referred to above presents fairly, in all material respects, the grant revenues and expenditures of the San Bernardino County Sheriff's Department Operation CleanSWEEP Program Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # IP02A10360 for the eleven months ended September 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2003, on our consideration of the Department's internal control and our test of its compliance with certain provisions of laws, regulations, and contract requirements. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the County's Board of Supervisors, Sheriff's Department management and the State of California's Office of Criminal Justice Planning, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

December 17, 2003

**SAN BERNARDINO COUNTY SHERIFF'S DEPARTMENT
OPERATION CLEANSWEEP PROGRAM GRANT
CONTRACT # IP02A10360**

Statement of Grant Revenues and Expenditures

For the Eleven Months Ended September 30, 2003

	<u>Funds Requested</u>	<u>Matching Funds</u>	<u>Total</u>
Revenues			
Reimbursements received/receivable			\$ 302,583
Expenditures			
Salaries and benefits	\$ 206,386	\$ 22,932	229,318
Services and supplies	53,888	5,988	59,876
Equipment	<u>42,309</u>	<u>4,700</u>	<u>47,009</u>
Total expenditures	302,583	33,620	<u>336,203</u>
Excess of expenditures over grant revenues received - Department cash match			\$ <u>(33,620)</u>

The accompanying notes are an integral part of this statement.

**SAN BERNARDINO COUNTY SHERIFF'S DEPARTMENT
OPERATION CLEANSWEEP PROGRAM GRANT
CONTRACT # IP02A10360**

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies

Description of the Reporting Entity

The statement represents the grant revenues and expenditures of the San Bernardino County Sheriff's Department (the Department) State of California's Office of Criminal Justice Planning (OCJP) Operation CleanSWEEP Program Grant Contract # IP02A10360 for the eleven months ended September 30, 2003. The grant was funded by OCJP and administered by the San Bernardino County Sheriff's Department. The accompanying statement of grant revenues and expenditures presents only the activities of the Operation CleanSWEEP Program Grant Contract # IP02A10360 and is not intended to present the financial position of the San Bernardino County Sheriff's Department nor the County of San Bernardino itself in conformity with accounting principles generally accepted in the United States of America.

Description of Grant

The grant funds were made available to the Sheriff's Department to address the problem of discipline on school campuses by making it possible for vice principals and deans to write citations for offending students in addition to whatever disciplinary actions they may choose to employ according to the education code.

The preparation of this financial statement requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of revenues and expenses, as well as the disclosure of contingent liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of the statement. A description of the significant accounting policies employed in the preparation of this statement follows:

Statement of Grant Revenues and Expenditures

The statement of grant revenues and expenditures presents the eligible costs charged to the Operation CleanSWEEP Program Grant Contract # IP02A10360 by the San Bernardino County Sheriff's Department and the revenues received in reimbursement of those costs by OCJP.

Basis of Accounting

Revenues and expenditures are presented on a modified accrual basis. Expenditures are recognized in the accounting period in which they are incurred, that is, when goods are received or services are provided. Revenues are recognized in the accounting period in which reimbursable expenditures are incurred.



POWELL & SPAFFORD, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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**Independent Auditors' Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

To the Board of Supervisors
San Bernardino County Sheriff's Department

We have audited the statement of grant revenues and expenditures of the San Bernardino County Sheriff's Department (the Department) Operation CleanSWEEP Program Grant Contract in accordance with the State of California's Office of Criminal Justice Planning Contract # IP02A10360 for the eleven months ended September 30, 2003 and have issued our report thereon dated December 17, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests, disclosed an instance of noncompliance that is required to be reported herein under *Government Auditing Standards* issued by the Comptroller General of the United States as discussed in the Findings and Questioned Costs Section of this report.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the County's Board of Supervisors, Sheriff's Department management, and the California Office of Criminal Justice Planning, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 17, 2003

**SAN BERNARDINO COUNTY SHERIFF'S DEPARTMENT
OPERATION CLEANSWEEP PROGRAM GRANT
CONTRACT # IP02A10360**

**Schedule of Findings and Questioned Costs
For the Eleven Months Ended September 30, 2003**

Findings and Questions Costs for the Eleven Months Ended September 30, 2003:

Finding

The Department incorrectly reported a vehicle light bridge under operating expenses on OCJP Form-201. A vehicle light bridge is considered equipment for grant reporting purposes and should have been budgeted as such.

Questioned Costs

Light bridge for \$2,720

Recommendation

We recommend that the Department carefully review the OCJP grantee handbook when preparing grant budgets, especially in the area of supplies versus equipment purchases.

Status of Prior Findings and Questioned Costs:

No prior findings.



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To the Board of Supervisors
San Bernardino County Sheriff's Department

We have audited the statement of grant revenues and expenditures of San Bernardino County Sheriff's Department (the Department) Operation CleanSWEEP Program Grant for the eleven months ended September 30, 2003 and have issued our report thereon dated December 17, 2003. Professional standards require that we provide the following information related to our audit:

Our Responsibility Under Auditing Standards Generally Accepted in the United States and Governmental Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statement is free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on the grant program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance.

As part of obtaining reasonable assurance about whether the Department's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with the Operation CleanSWEEP Program Grant, we examined, on a test basis, evidence about the Department's compliance with the types of requirements described in the State of California's Office of Criminal Justice Planning Handbook for the purpose of expressing an opinion on the Department's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Department's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Department are described in Note 1 to the financial statement.

We noted no transactions entered into by the Department as they relate to the Operation CleanSWEEP Program Grant during the period that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statement prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statement and because of the possibility that future events affecting them may differ significantly from those expected. Estimates for amounts due from granting agencies, including the State of California are particularly sensitive to estimation in the financial statement.

Significant Audit Adjustments

Significant audit adjustments are required to record those amounts for financial statement reporting purposes that are not recorded on the books and records for the grant. There were no such adjustments for the period ended September 30, 2003.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statement or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Department's financial statement or a determination of the type of auditors' opinion that may be expressed on that statement, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each fifteen months prior to retention as the Department's grant auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit ;

We encountered no significant difficulties in dealing with management in performing and completing our audit.

We would like to take this opportunity to express our sincere appreciation to all personnel within the San Bernardino County Sheriff's Department for their cooperation and valuable assistance during the performance of this engagement.

This report is intended solely for the information and use of the County's Board of Supervisors, Sheriff's Department management, and others within County of San Bernardino, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 17, 2003

**SAN BERNARDINO COUNTY
SHERIFF'S DEPARTMENT
STREET ENFORCEMENT AND PROSECUTION
PROJECT GRANT
Contract # DC02130360**

**Financial Statement
With
Independent Auditors' Reports
For the Year Ended June 30, 2003**

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CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

To the Board of Supervisors
San Bernardino County Sheriff's Department

We have audited the accompanying statement of grant revenues and expenditures of the San Bernardino County Sheriff's Department (the Department) Street Enforcement and Prosecution Project Grant in accordance with the State of California's Office of Criminal Justice Planning Contract # DC02130360 for the year ended June 30, 2003. This statement is the responsibility of the Department's management. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and in accordance with the State of California's Office of Criminal Justice Planning Handbook. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying statement of grant revenues and expenditures was prepared for the purpose of complying with the audit requirements of the State of California's Office of Criminal Justice Planning Handbook as described in Note 1 and is not intended to be a complete presentation of the Department's revenues and expenditures, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the statement referred to above presents fairly, in all material respects, the grant revenues and expenditures of the San Bernardino County Sheriff's Department Street Enforcement and Prosecution Project Grant in accordance with the State of California's Department of Criminal Justice Planning Contract # DC02130360 for the year ended June 30, 2003, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2003, on our consideration of the Department's internal control and our test of its compliance with certain provisions of laws, regulations, and contract requirements. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

This report is intended solely for the information and use of the County's Board of Supervisors, Sheriff's Department management and the State of California's Office of Criminal Justice Planning, and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

December 16, 2003

**SAN BERNARDINO COUNTY SHERIFF'S DEPARTMENT
STREET ENFORCEMENT AND PROSECUTION PROJECT GRANT
CONTRACT # DC02130360**

Statement of Grant Revenues and Expenditures

For the Year Ended June 30, 2003

Revenues

Reimbursements received/receivable	<u>\$ 1,241,115</u>
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Expenditures

Salaries and benefits	1,085,984
Services and supplies	3,563
Equipment	<u>151,568</u>

Total expenditures	<u>1,241,115</u>
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Excess of expenditures over grant revenues received	<u>\$ -</u>
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The accompanying notes are an integral part of this statement.

**SAN BERNARDINO COUNTY SHERIFF'S DEPARTMENT
STREET ENFORCEMENT AND PROSECUTION PROJECT GRANT
CONTRACT # DC02130360**

Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies

Description of the Reporting Entity

The statement represents the grant revenues and expenditures of the San Bernardino County Sheriff's Department (the Department) State of California's Office of Criminal Justice Planning (OCJP) Street Enforcement and Prosecution Project Grant Contract # DC02130360 for the year ended June 30, 2003. The grant was funded by OCJP and administered by the San Bernardino County Sheriff's Department. The accompanying statement of grant revenues and expenses presents only the activities of the Street Enforcement and Prosecution Project Grant Contract # DC02130360 and is not intended to present the financial position of the San Bernardino County Sheriff's Department nor the County of San Bernardino itself in conformity with accounting principles generally accepted in the United States of America.

Description of Grant

The grant funds were made available to the Sheriff's Department to provide a coordinated effort of investigators, crime lab personnel, a probation officer and prosecutors to effectively handle the vast number of cases related to methamphetamine trafficking in San Bernardino County. .

The preparation of this financial statement requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of revenues and expenses, as well as the disclosure of contingent liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of the statement. A description of the significant accounting policies employed in the preparation of this statement follows:

Statement of Grant Revenues and Expenditures

The statement of grant revenues and expenditures presents the eligible costs charged to the Street Enforcement and Prosecution Project Grant Contract # DC02130360 by the San Bernardino County Sheriff's Department and other departments within the County and the revenues received in reimbursement of those costs by OCJP.

Basis of Accounting

Revenues and expenditures are presented on the basis of accounting as allowed by the OCJP handbook where expenditures are recognized in the accounting period in which they are incurred or encumbered, that is, when goods are received or services are provided or a purchase order for the goods or services has been issued. Revenues are recognized in the accounting period in which reimbursable expenditures are incurred or encumbered.



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**Independent Auditors' Report on Compliance and on Internal Control Over
Financial Reporting Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

To the Board of Supervisors
San Bernardino County Sheriff's Department

We have audited the statement of grant revenues and expenditures of the San Bernardino County Sheriff's Department (the Department) Street Enforcement and Prosecution Project Grant Contract in accordance with the State of California's Office of Criminal Justice Planning Contract # DC02130360 for the year ended June 30, 2003 and have issued our report thereon dated December 16, 2003.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests, disclosed an instance of noncompliance that is required to be reported herein under *Government Auditing Standards* issued by the Comptroller General of the United States as discussed in the Findings and Questioned Costs Section of this report.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the County's Board of Supervisors, Sheriff's Department management, and the California Office of Criminal Justice Planning, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 16, 2003

**SAN BERNARDINO COUNTY SHERIFF'S DEPARTMENT
STREET ENFORCEMENT AND PROSECUTION PROJECT GRANT
CONTRACT # DC02130360**

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2003**

Findings and Questions Costs for the Year Ended June 30, 2003:

Finding

During the grant audit, it was discovered that the Department does not have supporting documentation for certain grant expenditures, which include the proper approvals or signatures authorizing transfers between Divisions of the County of San Bernardino such as the Automotive and Communications Divisions.

Questioned Costs

Vehicle light bar equipment for \$2,855

Recommendation

We recommend that the Department obtain proper authorizations before charging a grant for all charges.

Status of Prior Year Findings and Questioned Costs:

No prior year findings.



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To the Board of Supervisors
San Bernardino County Sheriff's Department

We have audited the statement of grant revenues and expenditures of San Bernardino County Sheriff's Department (the Department) Street Enforcement and Prosecution Project Grant for the year ended June 30, 2003 and have issued our report thereon dated December 16, 2003. Professional standards require that we provide the following information related to our audit:

Our Responsibility Under Auditing Standards Generally Accepted in the United States and Governmental Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statement is free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts may exist and not be detected by us.

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on the grant program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance.

As part of obtaining reasonable assurance about whether the Department's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with the Street Enforcement and Prosecution Project Grant, we examined, on a test basis, evidence about the Department's compliance with the types of requirements described in the State of California's Office of Criminal Justice Planning Handbook for the purpose of expressing an opinion on the Department's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Department's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Department are described in Note 1 to the financial statement.

We noted no transactions entered into by the Department as they relate to the Street Enforcement and Prosecution Project Grant during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statement prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statement and because of the possibility that future events affecting them may differ significantly from those expected. Estimates for amounts due from granting agencies, including the State of California are particularly sensitive to estimation in the financial statement.

Significant Audit Adjustments

Significant audit adjustments are required to record those amounts for financial statement reporting purposes that are not recorded on the books and records for the grant. There were no such adjustments for the period ended June 30, 2003.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statement or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Department's financial statement or a determination of the type of auditors' opinion that may be expressed on that statement, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Department's grant auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

We would like to take this opportunity to express our sincere appreciation to all personnel within the San Bernardino County Sheriff's Department for their cooperation and valuable assistance during the performance of this engagement.

This report is intended solely for the information and use of the County's Board of Supervisors, Sheriff's Department management, and others within County of San Bernardino, and is not intended to be, and should not be, used by anyone other than these specified parties.

December 16, 2003